

Julius Bär

Bond Rating Methodologies

Methodology – Top Picks: Investment Grade (Developed & Emerging Markets)	2
Methodology – Top Picks: High Yield, Emerging Markets & Special Situations	3
Methodology – Top Picks: Other Currencies	4
Methodology – Top Picks: Contingent Convertible Bonds (CoCos).....	5

Bank Julius Baer & Co. Ltd.

Bahnhofstrasse 36, P.O. Box, 8010 Zurich, Switzerland

T +41 (0) 58 888 1111, F +41 (0) 58 888 1122

www.juliusbaer.com

Julius Bär

Methodology – Top Picks: Investment Grade (Developed & Emerging Markets)

Investment Specialists Fixed Income Zurich selects bonds based on the following methodology:

- Bonds from the Julius Baer Advisory Universe (actively and passively covered issuers), as defined and monitored by Research, provide the basis for the selection process.
 - Selection of bonds denominated in USD, EUR, GBP, CHF
 - Exclusion of bonds from issuers that are Sell rated by Julius Baer Research
 - Exclusion of bonds with an overall bond score of 1 (in the absence of a bond score, exclusion of bonds from issuers with an overall score of 1)
 - In general, the following criteria are applied:
 - Focus on all types of issuers from mature and emerging market economies
 - Focus on (lower) investment-grade credit ratings (potentially including unrated bonds from issuers with investment grade like credit metrics)
 - Focus on maturities in the 3-10 year range (potentially including perpetual bonds)
 - All payment ranks across an issuer's capital structure
 - Exclusion of illiquid bonds
 - Exclusion of bonds with a cash price above 115%
 - Exclusion of bonds with a nominal yield to worst below 0.2%
 - The resulting sub-universe serves as a basis for the final selection process, in which bonds are selected and rated according to the applicable methodologies with the overarching goal of achieving the best possible diversification across geographies, sectors, issuers, credit ratings and durations.
 - Coverage of bonds is initiated (Buy), maintained (Buy or Hold) and terminated (Sell) based on the following rules:
 - **Buy** – the bond is considered attractive from a risk/reward perspective relative to the respective peer group/risk category over a targeted investment period of six months up to its repayment. For diversification reasons, also fairly priced bonds may be rated as Buy (which will be mentioned in the respective investment rationale).
 - **Hold** – the bond is considered unattractive from a risk/reward perspective relative to the respective peer group/risk category over its remaining lifetime, but may nevertheless continue to be held given a lack of alternatives, and/or uneconomic switch conditions and the fact that investment losses are unlikely.
 - **Sell** – a bond is downgraded to Sell for the following reasons:
 - The issuer rating has been downgraded to Sell by Julius Baer Fixed Income Research.
 - The respective bond score (or, in the absence of a bond score, the issuer score) falls to 1.
 - The bond is expected to perform in an extraordinarily weak manner relative to its respective peer group/risk category over its remaining lifetime, and investment losses are likely.
- Following a downgrade to Sell, a bond's rating and assessment will no longer be updated (i.e. termination of coverage).

Julius Bär

Methodology – Top Picks: High Yield, Emerging Markets & Special Situations

Investment Specialists Fixed Income Zurich selects bonds based on the following methodology:

- Bonds from the Julius Baer Advisory Universe (actively and passively covered issuers), as defined and monitored by Research, provide the basis for the selection process.
 - Selection of bonds denominated in USD, EUR, GBP, CHF
 - Exclusion of bonds from issuers that are Sell rated by Julius Baer Research
 - Exclusion of bonds with an overall bond score of 1 (in the absence of a bond score, exclusion of bonds from issuers with an overall score of 1)
- In general, the following criteria are applied:
 - Focus on all types of issuers from mature and emerging market economies
 - Focus on non-investment-grade credit ratings (not necessarily excluding investment-grade-rated bonds if special situations apply)
 - Focus on maturities in the 1-10 year range (including perpetual bonds)
 - All payment ranks across an issuer's capital structure
 - Exclusion of illiquid bonds
 - Exclusion of bonds with a cash price above 115%
 - Exclusion of bonds with a nominal yield to worst below 0.2%
- The resulting sub-universe serves as a basis for the final selection process, in which bonds are selected and rated according to the applicable methodologies with the overarching goal of achieving the best possible diversification across geographies, sectors, issuers, credit ratings and durations.
- Coverage of bonds is initiated (Buy), maintained (Buy or Hold) and terminated (Sell) based on the following rules:
 - **Buy** – the bond is considered attractive from a risk/reward perspective relative to the respective peer group/risk category over a targeted investment period of six months up to its repayment. For diversification reasons, also fairly priced bonds may be rated as Buy (which will be mentioned in the respective investment rationale).
 - **Hold** – the bond is considered unattractive from a risk/reward perspective relative to the respective peer group/risk category over its remaining lifetime, but may nevertheless continue to be held given lack of alternatives, and/or uneconomic switch conditions and the fact that investment losses are unlikely.
 - **Sell** – a bond is downgraded to Sell for the following reasons:
 - The issuer rating has been downgraded to Sell by Julius Baer Fixed Income Research.
 - The respective bond score (or, in the absence of a bond score, the issuer score) falls to 1.
 - The bond is expected to perform in an extraordinarily weak manner relative to its respective peer group/risk category over its remaining lifetime, and investment losses are likely.

Following a downgrade to Sell, a bond's rating and assessment will no longer be updated (i.e. termination of coverage).

Julius Bär

Methodology – Top Picks: Other Currencies

Investment Specialists Fixed Income Zurich selects bonds based on the following methodology:

- Bonds from the Julius Baer Advisory Universe (actively and passively covered issuers), as defined and monitored by Research, provide the basis for the selection process.
 - Selection of bonds denominated in AUD, BRL, CAD, CNH/CNY, IDR, INR, MXN, NOK, NZD, RUB, SEK, TRY, ZAR
 - Exclusion of bonds from issuers that are Sell rated by Julius Baer Research
 - Exclusion of bonds with an overall bond score of 1 (in the absence of a bond score, exclusion of bonds from issuers with an overall score of 1)
- In general, the following criteria are being applied:
 - Focus on government, supranational or blue-chip issuers from mature and emerging market economies
 - Focus on investment-grade credit ratings
 - Focus on maturities in the 1-7 year range
 - Exclusion of illiquid bonds
 - Exclusion of bonds with a cash price above 115%
 - Exclusion of bonds with a nominal yield to worst below 0.2%
- The resulting sub-universe serves as a basis for the final selection process, in which bonds are selected and rated according to the applicable methodologies with the overarching goal of achieving the best possible diversification across geographies, sectors, issuers, credit ratings and durations. However, given the potentially limited number of liquid bonds available in these currencies, it may not be possible to provide recommendations on a well-diversified basis.
- Coverage of bonds is initiated (Buy), maintained (Buy or Hold) and terminated (Sell) based on the following rules:
 - **Buy** – the bond is issued by an issuer of the Julius Baer Advisory Universe that has an overall issuer score of at least 2, is not Sell rated by Julius Baer Research, and is expected to be liquid.
 - **Hold** – the bond is issued by an issuer of the Julius Baer Advisory Universe that has an overall issuer score of at least 2, is not Sell rated by Julius Baer Research, but does not show sufficient liquidity anymore or looks less attractive than bonds of the same issuer.
 - **Sell** – a bond is downgraded to Sell for the following reasons:
 - The issuer rating has been downgraded to Sell by Julius Baer Fixed Income Research.
 - The respective bond score (or, in the absence of a bond score, the issuer score) falls to 1.
 - The bond is expected to perform in an extraordinarily weak manner relative to its respective peer group/risk category over its remaining lifetime, and investment losses are likely.

Following a downgrade to Sell, a bond's rating and assessment will no longer be updated (i.e. termination of coverage).

Julius Bär

Methodology – Top Picks: Contingent Convertible Bonds (CoCos)

Investment Specialists Fixed Income Zurich selects bonds based on the following methodology:

- Bonds from the Julius Baer Advisory Universe (actively and passively covered issuers), as defined and monitored by Research, provide the basis for the selection process.
 - Selection of bonds denominated in USD, EUR, GBP, CHF
 - Exclusion of bonds from issuers that are Sell rated by Julius Baer Research
 - Exclusion of bonds with an overall bond score of 1 (in the absence of a bond score, exclusion of bonds from issuers with an overall score of 1)
- In general, the following criteria are applied:
 - Exclusion of illiquid bonds
 - Exclusion of bonds with a cash price above 115%
 - Exclusion of bonds with a nominal yield to worst below 0.2%
- The resulting sub-universe serves as a basis for the final selection process, in which bonds are selected and rated according to the applicable methodologies with the overarching goal of achieving the best possible diversification across geographies, sectors, issuers, credit ratings and durations. However, given the relatively young age of this evolving bond segment and hence the still relatively small universe of bonds available, it may not be possible to provide recommendations on a well-diversified basis.
- Coverage of bonds is initiated (Buy), maintained (Buy or Hold) and terminated (Sell) based on the following rules:
 - **Buy** – the bond is considered attractive from a risk/reward perspective relative to the respective peer group/risk category over a targeted investment period of six months up to its repayment.
 - **Hold** – the bond is considered unattractive from a risk/reward perspective relative to the respective peer group/risk category over its remaining lifetime, but may nevertheless continue to be held given lack of alternatives, and/or uneconomic switch conditions and the fact that investment losses are unlikely.
 - **Sell** – a bond is downgraded to Sell for the following reasons:
 - The issuer rating has been downgraded to Sell by Julius Baer Fixed Income Research.
 - The respective bond score (in the absence of a bond score the issuer score) falls to 1.
 - The bond is expected to perform in an extraordinarily weak manner relative to its respective peer group/risk category over its remaining lifetime, and investment losses are likely.

Following a downgrade to Sell, a bond's rating and assessment will no longer be updated (i.e. termination of coverage).

Contingent convertible (CoCo) bonds are deeply subordinated instruments that combine debt and equity characteristics and can absorb losses (via a write-down on the nominal or conversion into equity) if an issuer's capitalisation falls below a certain level or if it is deemed necessary by the regulator. Investments in CoCo bonds for European Economic Area resident clients are only allowed for professional clients or for retail clients if the issuer provides a Key Information Document

Julius Bär

according to the Regulation for Packaged Retail Investment and Insurance-based Products (PRIIPs KID) and their annual income exceeds GBP 100 000 or investable net assets amount to at least GBP 250 000 (or equivalent). Please find important legal information for CoCo bonds at the end of the publication. Clients are advised to consult their Financial Advisor about risks and potential returns of an investment in these securities.

Zurich, 3 June 2019