

Emerging Market Debt

Double-digit gains abound

Few investors have caught on to this exciting asset class — emerging country debt. Through the '90s, it has stood head-and-shoulders above all other fixed income investments and according to emerging market money managers, the outlook over the next few years is more of the same wonderful returns.

Why this trend? Since the collapse of communism and the tearing down of the Berlin Wall, leaders of these former communist bloc countries have been headstrong on raising living standards through economic reform. And to generate the needed funds, these countries

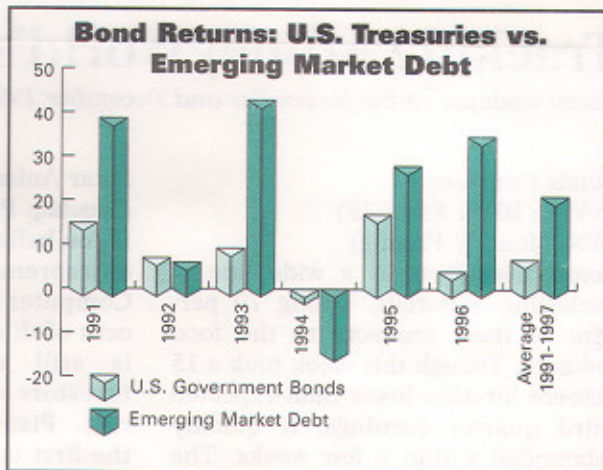
are offering far higher interest on their bonds than so-called safer, higher rated U.S. Treasuries.

As the chart below from Alliance Capital shows, emerging market debt securities have produced annualized returns of 22.7 percent over the past six years, leaving U.S. Treasuries in the dust and for that matter, U.S. stocks as well, in spite of our record bull market run since 1990.

On the surface, it might sound like throwing your money in a hole by lending it to some wild 'n crazy third world country, but not when you do it through a proven emerging markets bond mutual fund. Managers of these funds are fine-tuned to a country's currency trends, the ability of the bond issuer to service its debt, and the rating status of bonds. Thailand would not have been a good choice just prior to the baht sinking nearly 30 per-

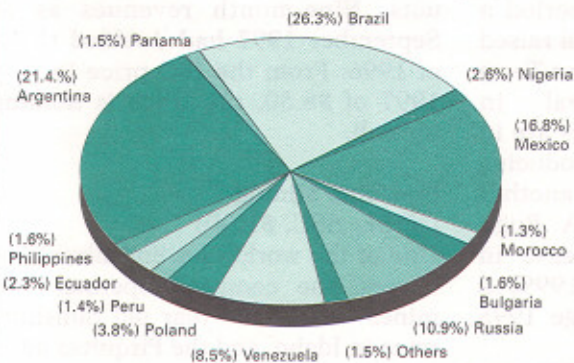
cent against the dollar in July 1997. And though Poland's debt offered incredible double-digit returns a few years back, as the country's credit worthiness improved and its bonds earned higher ratings, the super-glamorous rates went away. But a good mutual fund manager can measure the risk/reward potential of each country and make the right choices.

Is this a temporary phenomenon? Not likely, because even as today's emerging countries mature and become less dependent on high-interest debt, a stream of hungry new countries emerge with a passion to be part of an exploding global economy. They'll need your money and they'll pay you fantastic interest rates to use it.



Source: JP Morgan, Alliance Capital Global Bond Research

Emerging Market Debt Outstanding — Market Share by Country



Source: JP Morgan, Alliance Capital Global Bond Research