

**Franklin Templeton Fixed Income
Portfolio Manager Teleconference Call**

July 28, 2010

Global Fixed Income Update
[Macroeconomic Presentation]

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Global Outlook

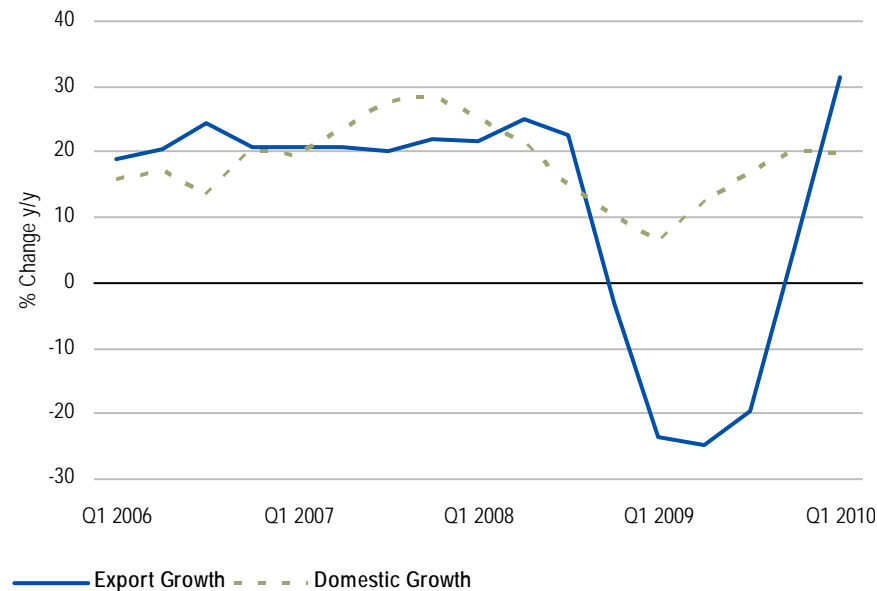
- Differing rates of economic recoveries between developed and developing countries should favor currency appreciation and tighter monetary policy in emerging markets. In our view, this combination will likely attract additional capital and trigger a virtuous cycle of stronger growth in emerging markets.
- However, the inflow of capital will likely present challenges to emerging market policy makers. While capital is being productively absorbed at the moment, there is a risk over the medium term that asset bubbles could form if policy remains accommodative for too long and structural transformations are resisted. Thus far, we have been encouraged by the prudent steps taken in many rapidly recovering countries to tighten policy.
- While much of the developed world faces significant challenges in achieving a sustainable recovery, we do not think this will derail the global economy. Japan and the Eurozone in particular must overcome a combination of over-leverage, weak labor markets, fragile banks, and fiscal challenges. While weak growth in these economies will hurt emerging market growth through lower demand for exports, we think the substantial capital inflows are likely to offset at least part of this weakness.
- Financial contagion is a significant concern, however, we do not believe concerns regarding Southern European sovereign debt are likely to lead to a sudden stop in financing. Aggressive policies to counter such a freezing of capital markets remain in place and have so far prevented the kind of rise in financing costs necessary to prompt a liquidity crisis.

Differing Recovery Paths Between Developed and Developing Economies

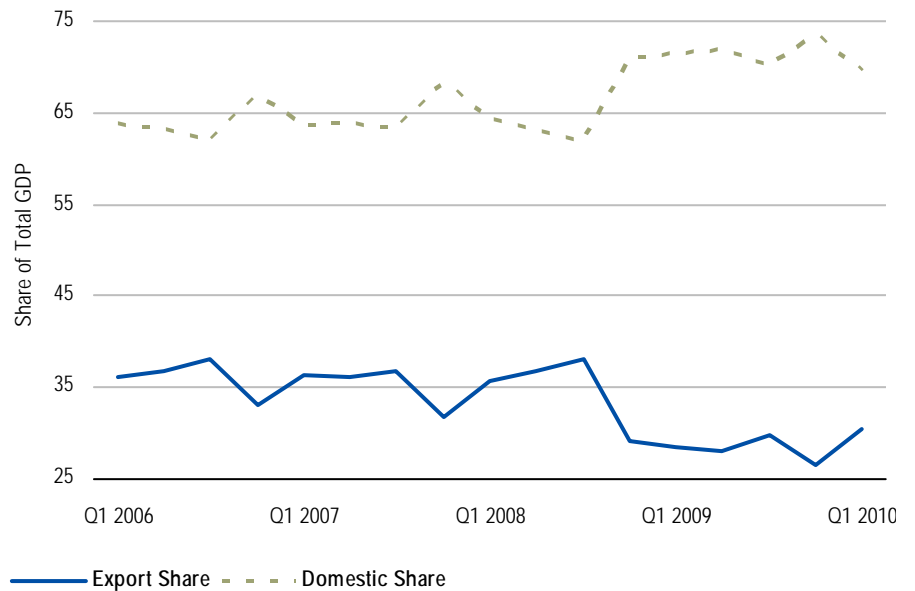
Weak Exports Balanced by Domestic Strength in Asia

Despite the sharp downturn in Asian exports beginning in 3Q08, growth remained resilient in parts of Asia as the relative contribution of domestic demand to growth increased, a trend we expect to continue.

Domestic vs Export Growth as of 3/31/10



Contribution to Growth from Domestic Demand vs Exports as of 3/31/10



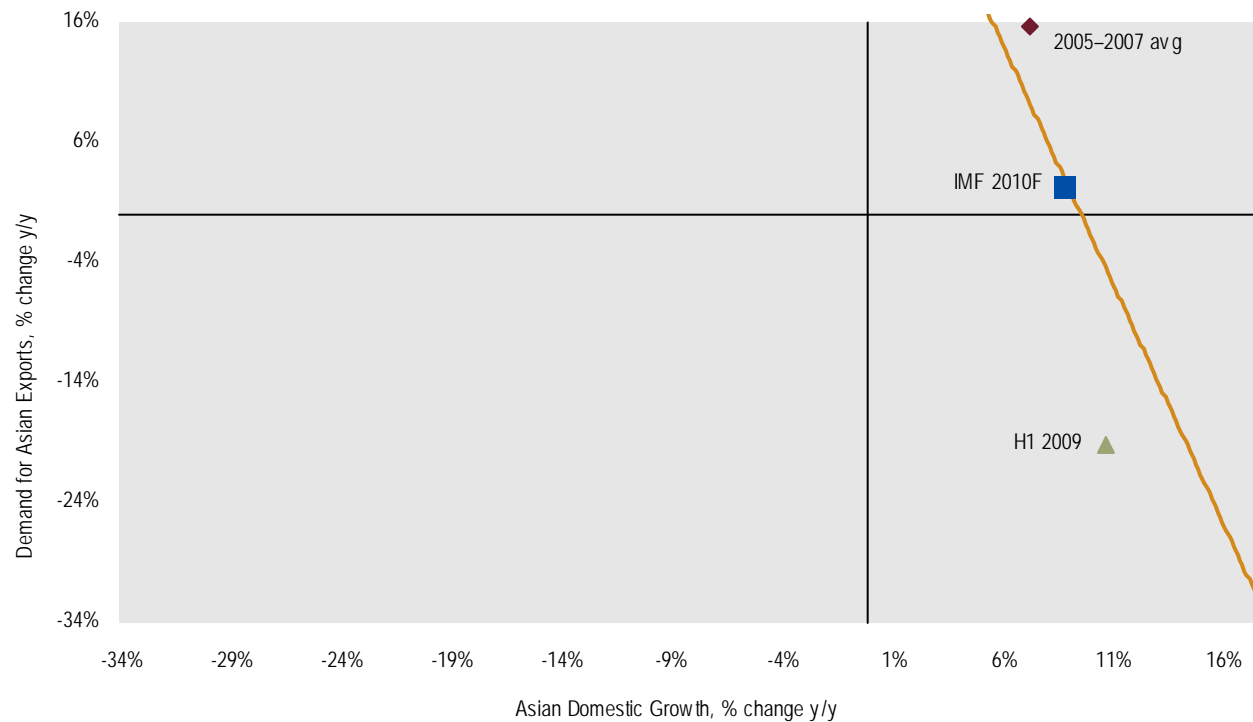
Source: DataStream; includes: China, India, Indonesia, Korea, and Taiwan. As of 3/31/10.
Charts are for illustrative and discussion purposes only.

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Though Asian exports have declined, we believe domestic strength may offset it.

Exports account for only 20% of Asian GDP as of March 31, 2010, so a small increase in domestic activity should offset a larger drop in such exports.

Different Combinations of Demand for Asia to Reach Potential Growth



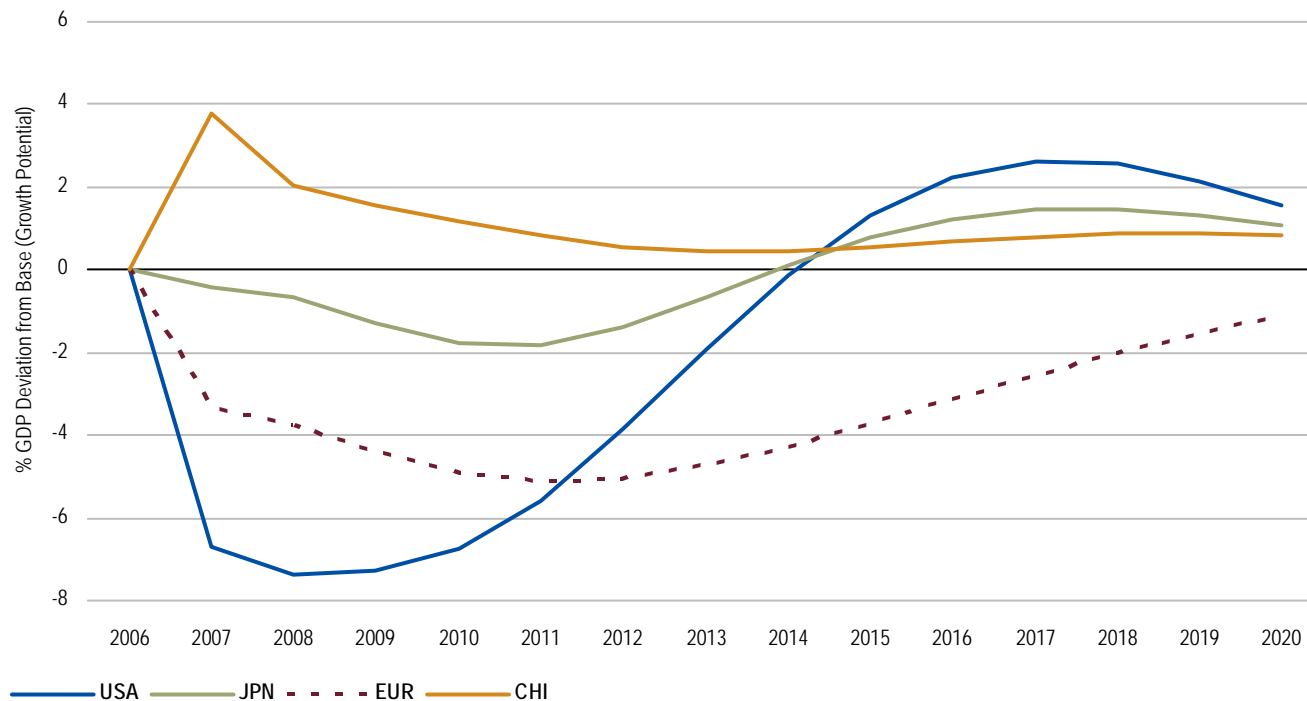
There is no assurance that any projection, estimate or forecast will be realized.

Source: FT Investments; © 2010 International Monetary Fund, World Economic Outlook, April 2010.

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Capital Flows Offset Decline in Trade to Boost Chinese Growth After a Shock in Developed World



This is a hypothetical situation only used for illustrative purposes. There is no assurance that any projection, estimate or forecast will be realized.

Sources: McKibbin's Software Group G-Cubed model MSG3V83A, FT Investments, DataStream. As of 3/31/10.

Housing bubble bursts: Shocks are permanent 100 bps increase in the risk premium for housing capital in the U.S., EU and the UK and an increase in the equity risk premium starting at 800 bps and falling 100 bps each year to 0 in the developed world (U.S., EU, UK).

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Asia's Lack of Leverage

Asia ex. Japan Banks have had room to increase lending

Loan to Deposit Ratio as of 4/30/10



Source: HSBC, CEIC. As of 4/30/10.

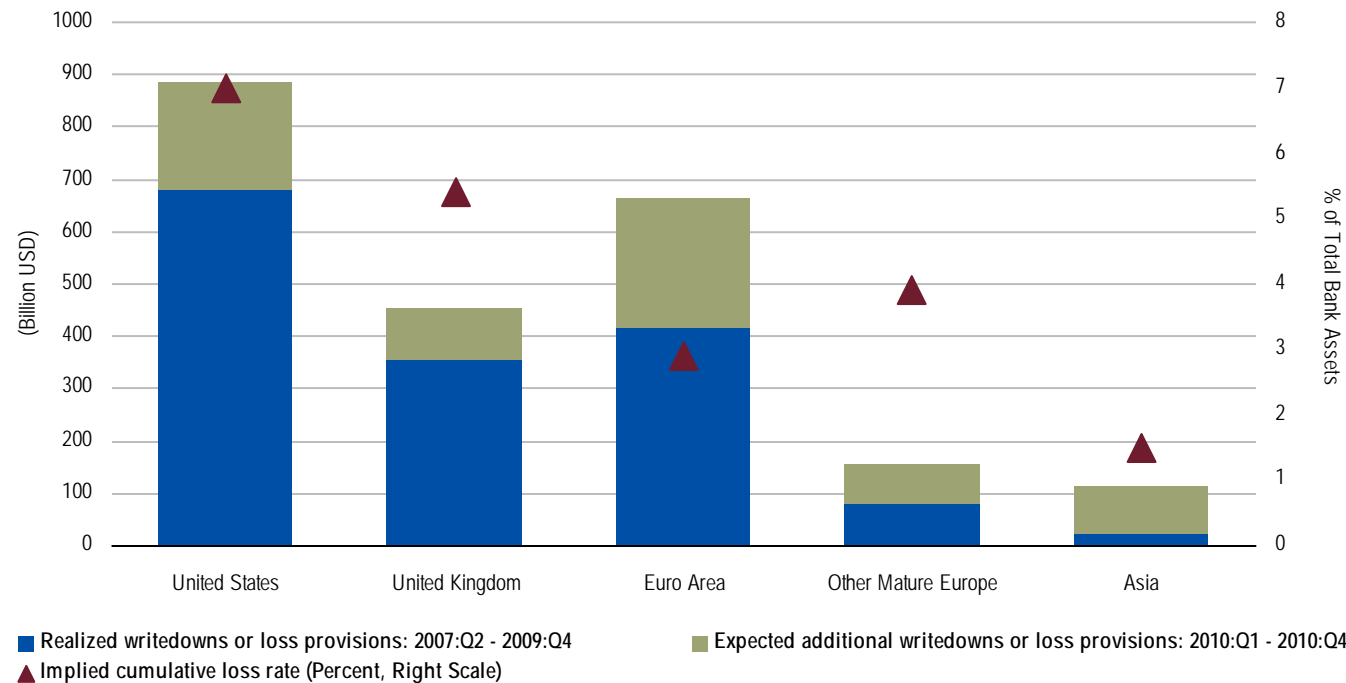
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Deleveraging Continues; Varies Significantly between Economies

U.S. banks have completed about 80% of writedowns whereas U.K. and euro area banks have recognized about 70%. Of the \$2.3 trillion in total losses expected, \$1.6 trillion have been recognized already.

Bank Writedowns



There is no assurance that any projection, estimate or forecast will be realized.

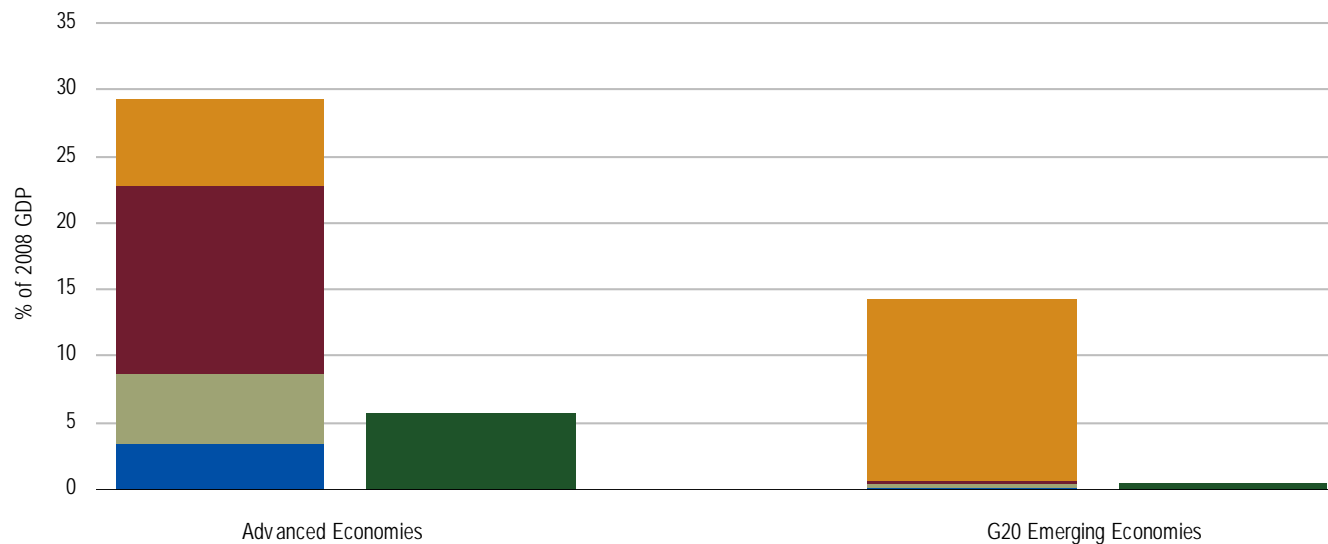
Source: © 2010 International Monetary Fund, Global Financial Stability Report, April 2010. Other mature Europe is Denmark, Iceland, Norway, Sweden, and Switzerland. Asia is Australia, Hong Kong, Japan, New Zealand, and Singapore.

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Support for Financial Sector to Weigh on Public Debt Levels, and Hinder Credit Growth

More Government Help for Financial Sector in Developed Economies as of October 2009



- Capital injection by governments and other institutions
- Guarantees
- Up-front government financing
- Purchase of assets and lending by governments
- Liquidity provision and other support by central banks

Source: © 2009 International Monetary Fund, World Economic Outlook, October 2009. G20 Emerging Markets are Argentina, Brazil, China, Hungary, India, Indonesia, Poland, Russia, Saudi Arabia, and Turkey.

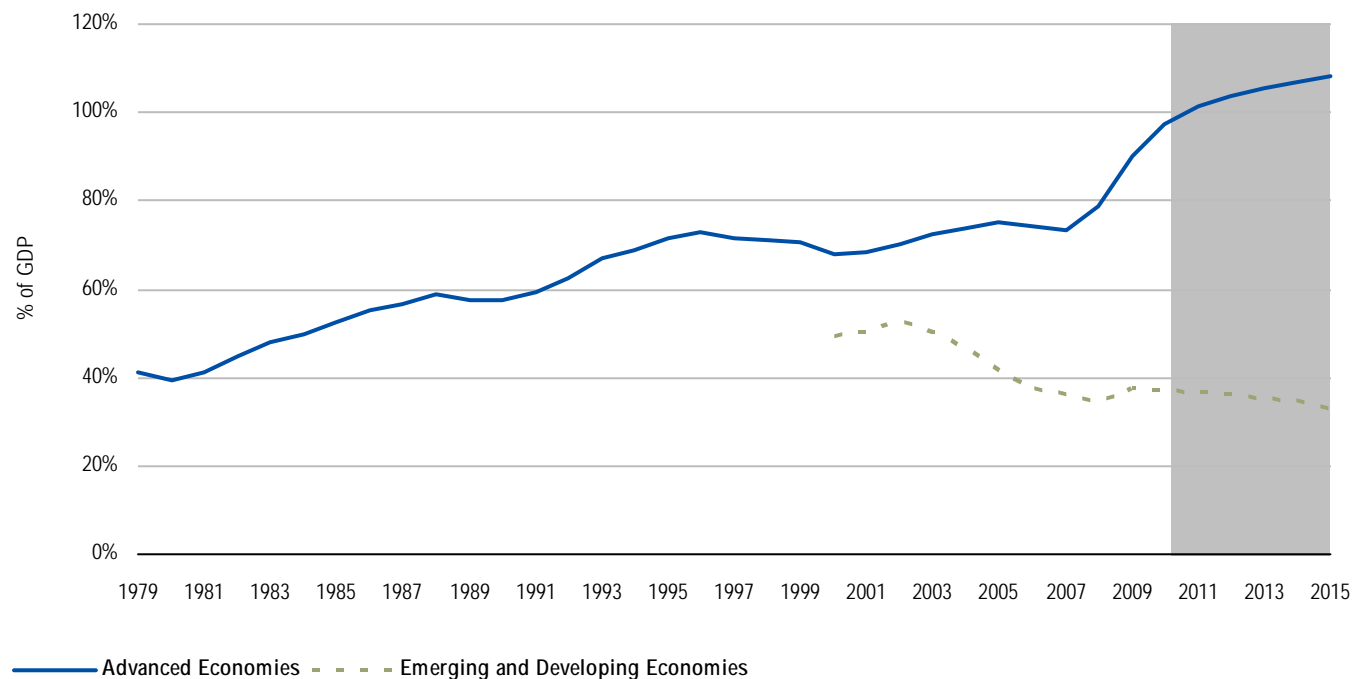
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Better Debt Ratios and Lower Supply Risks

The lower debt levels of emerging market governments could become even more pronounced as policy responses in developed countries cause their own debt levels to rise quickly.

Government Debt to GDP



Shaded area represents IMF staff estimates. As of April 2010.

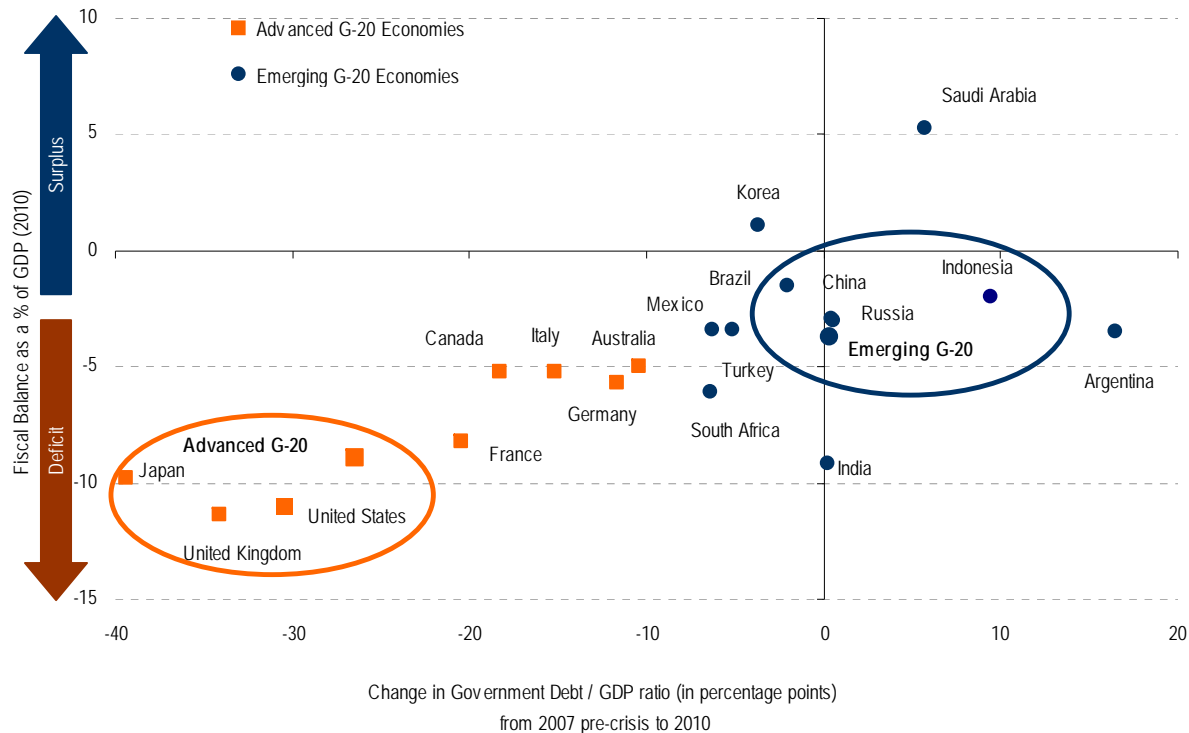
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 Source: © 2010 International Monetary Fund, World Economic Outlook, April 2010.
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Generally Higher Deterioration in Developed Sovereign Credits

Generally, countries with higher debt levels are projected to see their fiscal balances deteriorate the most during the crisis, which should cause their debt burden to rise further.

Fiscal Balances and Government Debt to GDP (As of April 2010)



There is no assurance that any projection, estimate or forecast will be realized.
 Source: © 2010 International Monetary Fund, World Economic Outlook, April 2010.
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Differing Fiscal Dynamics Should Favor Emerging Markets

Emerging markets generally had lower fiscal deficits as of April 2010, and those deficits are expected to improve significantly going forward.

Fiscal Deficit, % of GDP, as of April 2010

	2007	2009	2010(F)	2015(F)
World	-0.3	-6.7	-6.0	-3.3
Advanced Economies	-1.1	-8.8	-8.4	-4.7
Emerging Economies	0.0	-4.9	-3.9	-2.3
Low Income Economies	-2.1	-4.1	-3.7	-2.6
United States	-2.7	-12.5	-11.0	-6.5
United Kingdom	-2.7	-10.9	-11.4	-4.3
Japan	-2.4	-10.3	-9.8	-7.3
India	-4.4	-10.5	-9.2	-4.4
France	-2.7	-7.9	-8.2	-4.1
Russia	6.8	-6.2	-2.9	-4.2
Italy	-1.5	-5.3	-5.2	-4.6
Mexico	-1.4	-4.7	-3.4	-2.7
Australia	1.4	-4.1	-5.0	-0.2
Germany	0.2	-3.3	-5.7	-1.7
China	0.9	-3.0	-3.0	-2.4
Brazil	-2.7	-3.3	-1.5	-0.7
Korea	4.2	0.0	1.1	2.9
Indonesia	-1.2	-1.6	-2.0	-1.6

There is no assurance that any projection, estimate or forecast will be realized. (F) = forecast.

Source: © 2010 International Monetary Fund, World Economic Outlook, April 2010.

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Differing Fiscal Dynamics Should Favor Emerging Markets

Emerging markets generally had lower government debt burdens as of April 2010, and the prospects for rapidly rising debt levels in the developed world could challenge traditional perceptions of relative sovereign credit quality.

General Government Debt, % of GDP, as of April 2010

	2007	2009	2010(F)	2015(F)
G-20	61.3	72.5	76.8	82.5
Advanced G-20 Economies	77.9	96.9	104.4	117.1
Emerging G-20 Economies	37.3	37.4	37.0	32.7
Japan	187.7	217.7	227.1	250.0
Italy	103.4	115.8	118.6	124.7
United States	62.1	83.2	92.6	109.7
India	79.2	80.8	79.0	67.3
Germany	65.0	72.5	76.7	81.5
France	63.8	77.4	84.2	94.8
United Kingdom	44.1	68.2	78.2	90.6
Brazil	65.2	68.9	67.2	54.1
Mexico	38.2	44.9	44.5	42.4
Korea	29.6	32.6	33.3	26.2
Indonesia	36.9	28.6	27.5	23.1
China	20.5	18.9	20.0	17.5
Australia	9.4	15.5	19.8	20.9
Russia	8.5	9.0	8.1	13.0

There is no assurance that any projection, estimate or forecast will be realized. (F) = forecast.

Source: © 2010 International Monetary Fund, World Economic Outlook, April 2010.

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Greece

Greece, in our view, will have to make substantial efforts to consolidate its fiscal position and restore market confidence

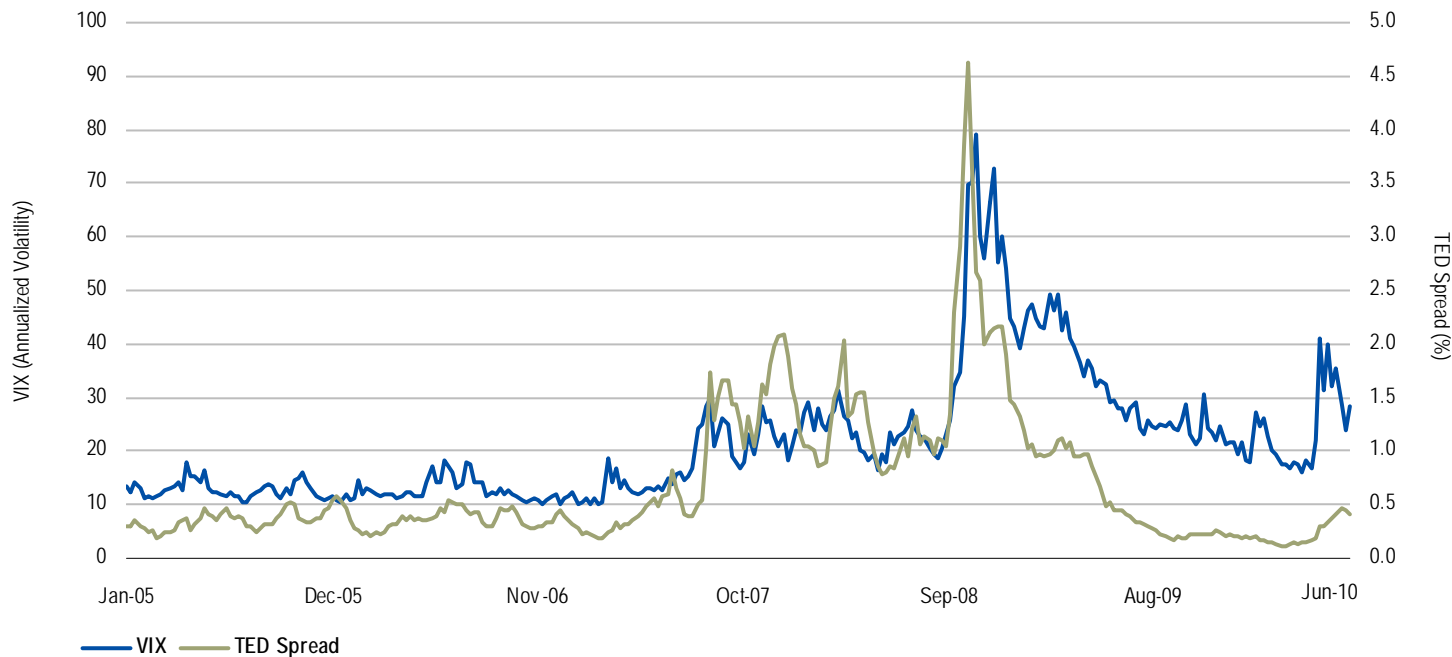
- Large, Persistent Fiscal Deficits; -13.6% of GDP in 2009¹
- Large, Persistent Current Account Deficits; -11.2% of GDP in 2009¹
- Only met the Maastricht criteria once since joining the Eurozone
- Public debt of 115.1% of GDP in 2009¹
- Challenging political environment and lack of government credibility make solutions more difficult
- Greece has been in default about half of the time since its independence in 1821

1. Source: © European Union, 1995-2010, as of 12/31/09.

Credit Markets Gradually Normalizing

The extensive policy response that unfroze credit markets, pushing volatility and credit spreads back towards pre-crisis levels largely remains in place. This limits the chance that the Eurozone sovereign crisis will spread into a systemic problem resulting in a liquidity crisis and subsequent series of defaults.

U.S. Market Volatility



VIX: The Chicago Board Options Exchange SPX Volatility Index reflects a market estimate of future volatility of the S&P 500.

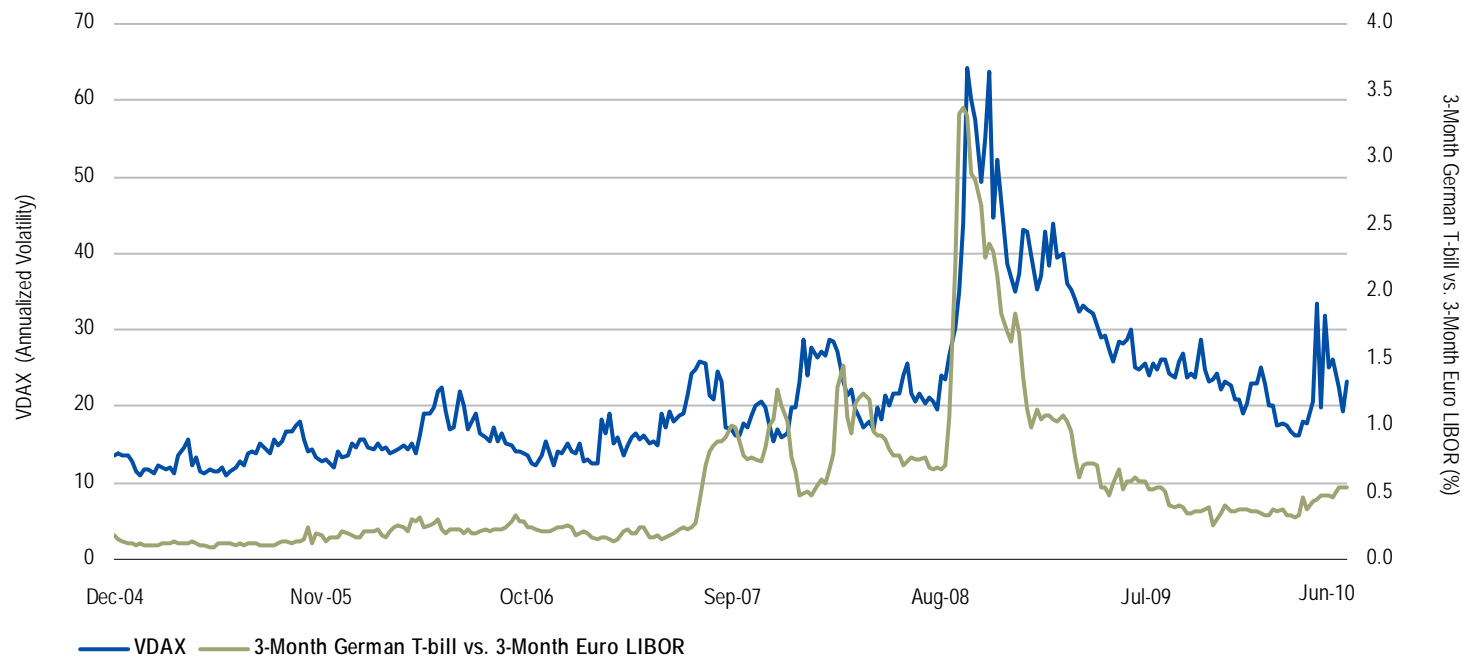
TED Spread: The difference between the 3-month LIBOR rate and the yield on the 3-month T-bill. Measures the premium banks have to pay over treasuries.

Source: British Bankers Association, Chicago Board Options Exchange, Federal Reserve, June 25, 2010.
Charts are for illustrative and discussion purposes only.

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Credit Markets Gradually Normalizing

Eurozone Market Volatility



VDAX: Indicates the fluctuations expected in the DAX German equity index over the following 45 days.

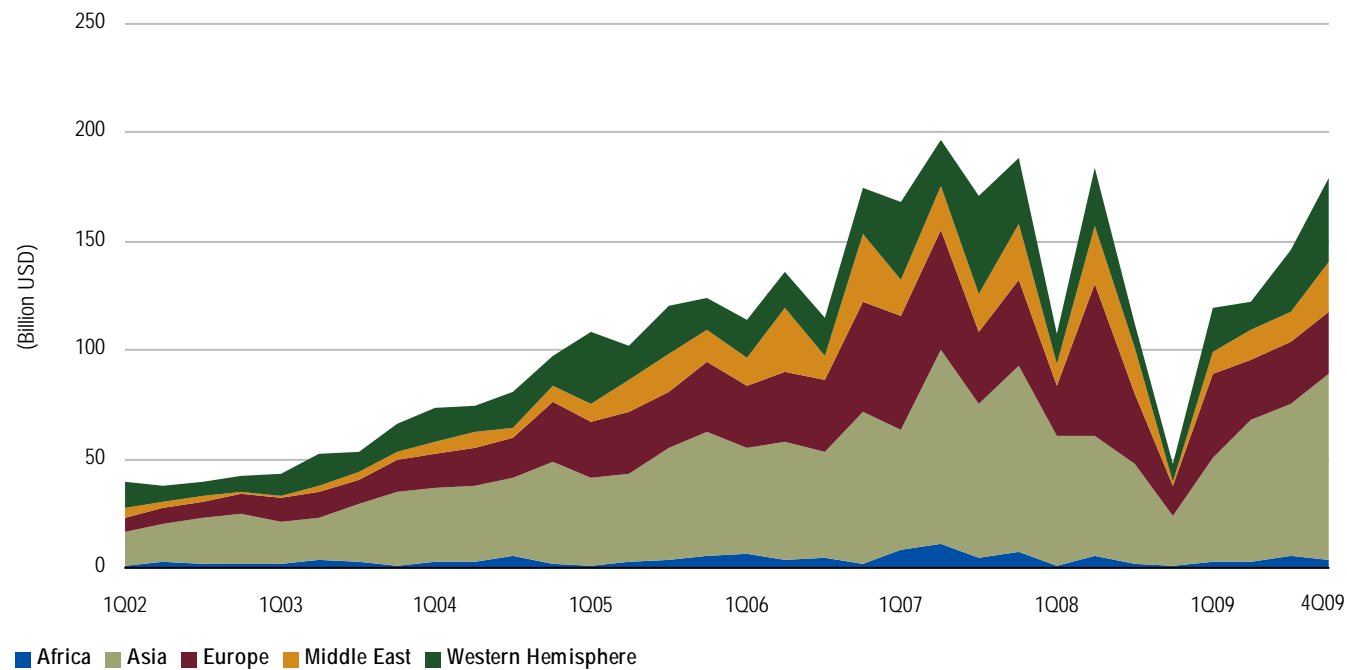
3-Month German Treasury Bill vs. 3-Month Euro LIBOR: The difference between the 3-month LIBOR rate and the yield on the 3-month German T-bill. Measures the premium banks have to pay over Governments to borrow Euros for 3 months.

Source: Bloomberg, Deutsche Boerse – Market Data & Analytics, June 25, 2010.
Charts are for illustrative and discussion purposes only.

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Credit beginning to flow to Emerging Economies Since 1Q09

Total New Issuance, Attracting Capital as of 12/31/09



Source: © 2010 International Monetary Fund, World Economic Outlook, April 2010.

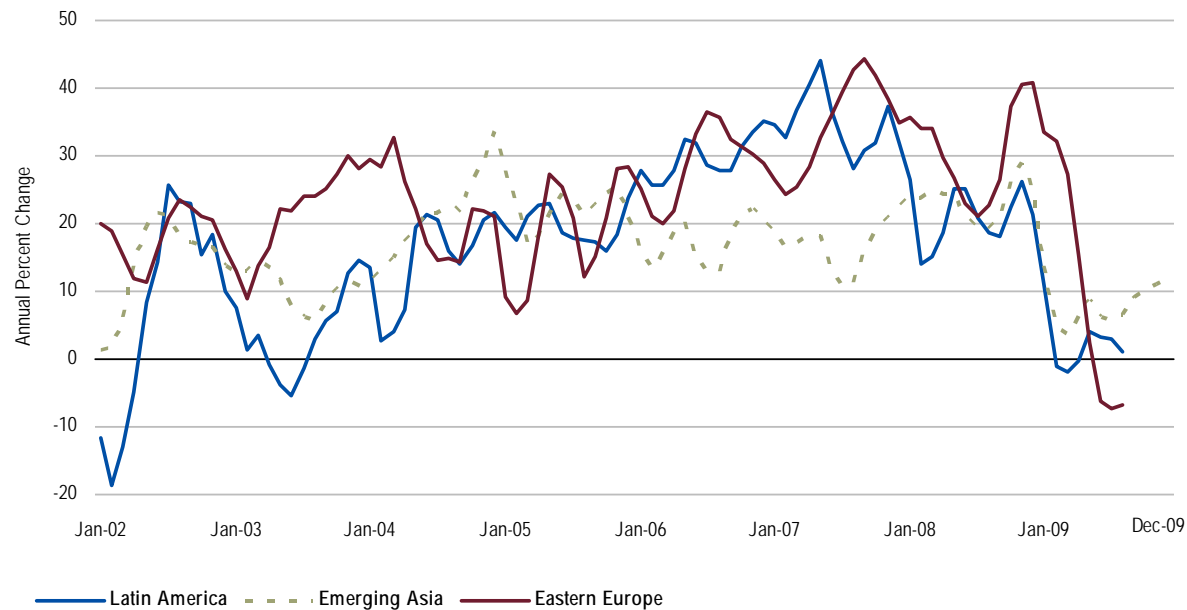
Total of equity, syndicated loans, and international bond issuances.

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Credit beginning to flow to Emerging Economies, Particularly Asia Since March 2009

Private Credit Growth as of 12/31/09

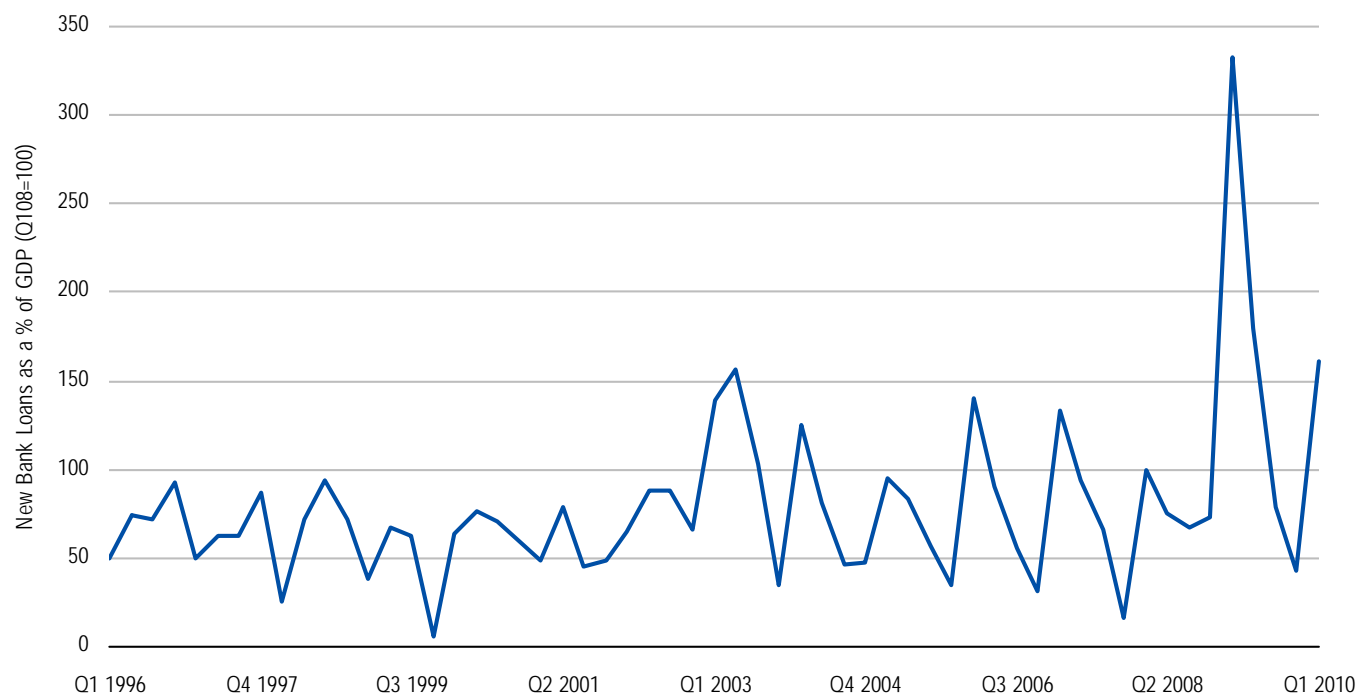


Source: © 2010 International Monetary Fund, World Economic Outlook, April 2010.
 Annualized percent change of three-month moving average over previous three-month moving average.
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Chinese Policy Makers Have Started to Tentatively Address the Risk of Excess Liquidity

Aggressive Stimulus Lending is Starting to be Pared Back, as of Q3 2009



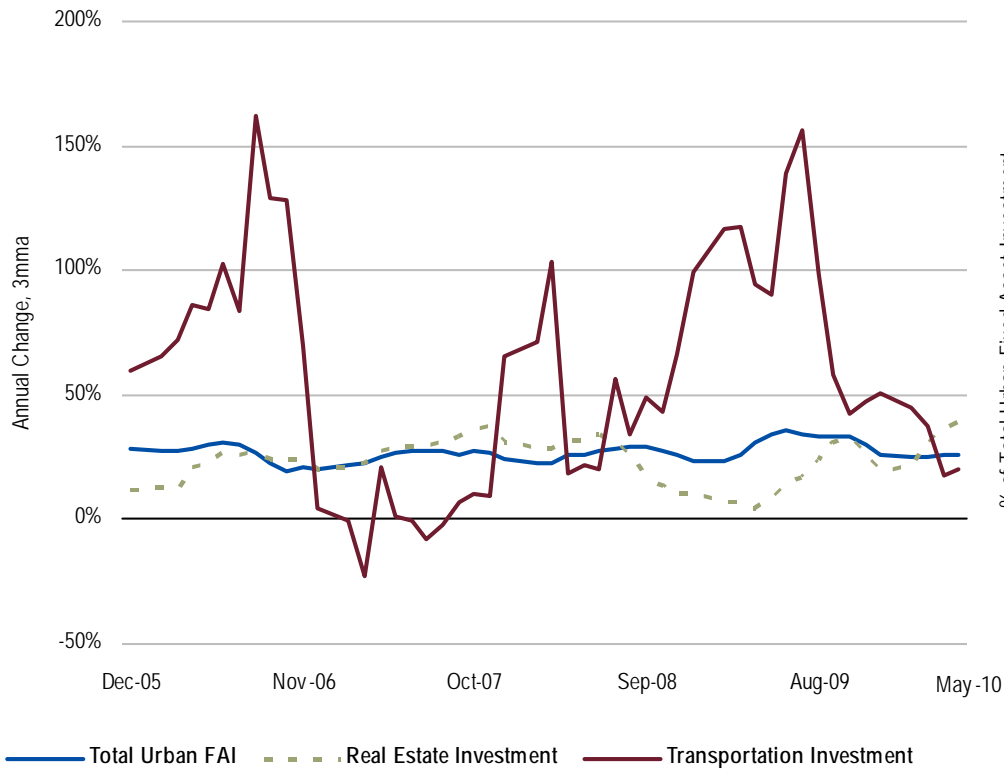
Source: DataStream, FT Investments, 3/31/10.

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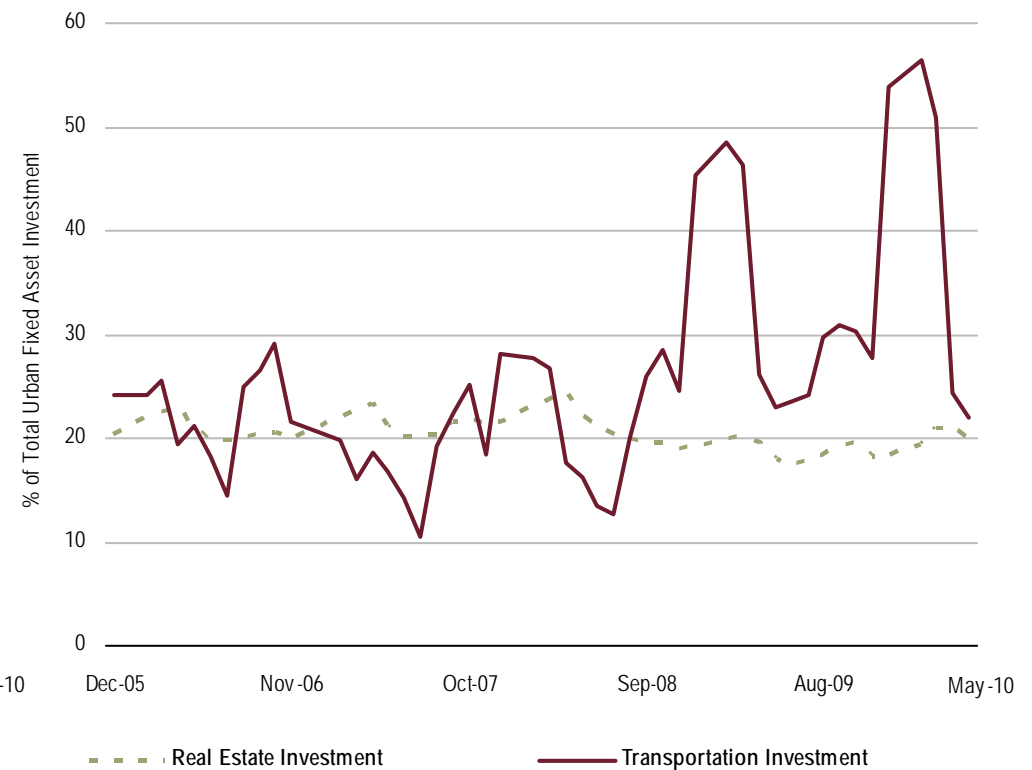
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Credit Extension in Response to the Financial Crisis Has Generally Seemed to be Productively Allocated with the Majority Going to Infrastructure Projects

Urban Fixed Asset Investment Growth, as of 5/31/10



Share of Urban Fixed Asset Investment, as of 5/31/10

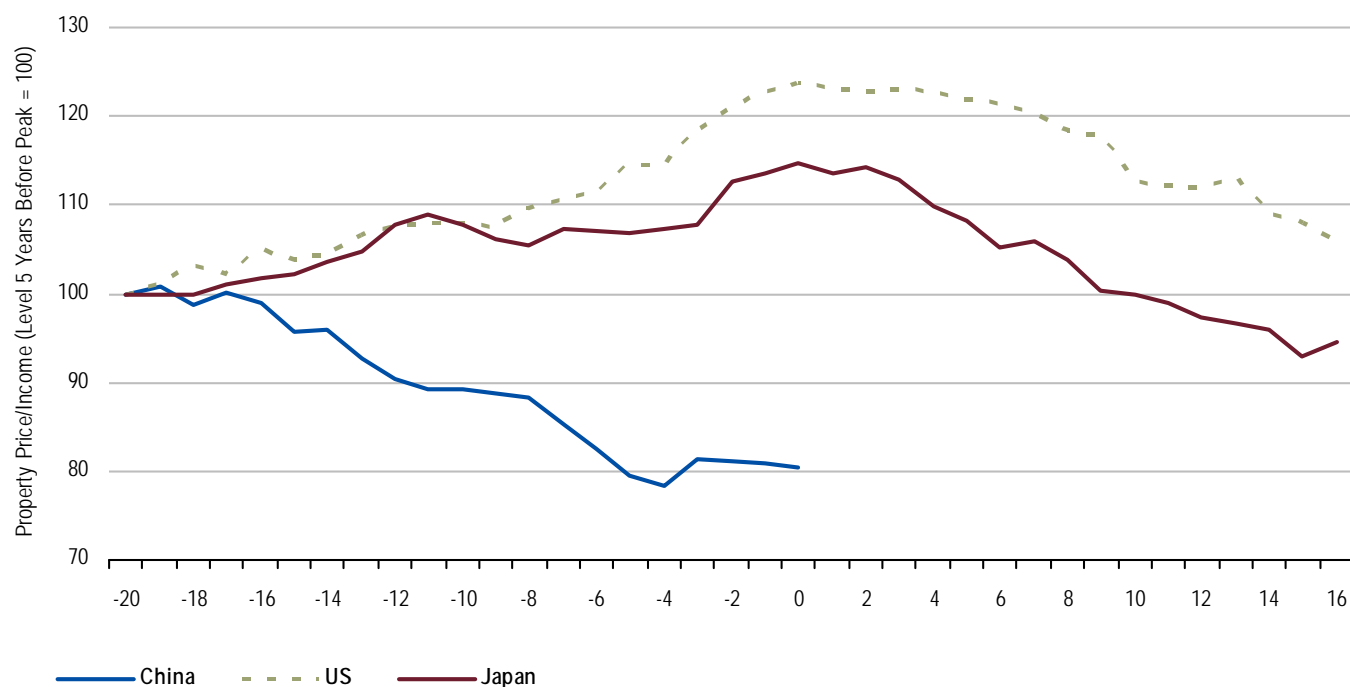


Source: China Economic Information Network, 5/31/10.
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Chinese Housing Prices Have Been Rising, but Affordability Has Been Improving and it Seems Too Early to Call a Bubble

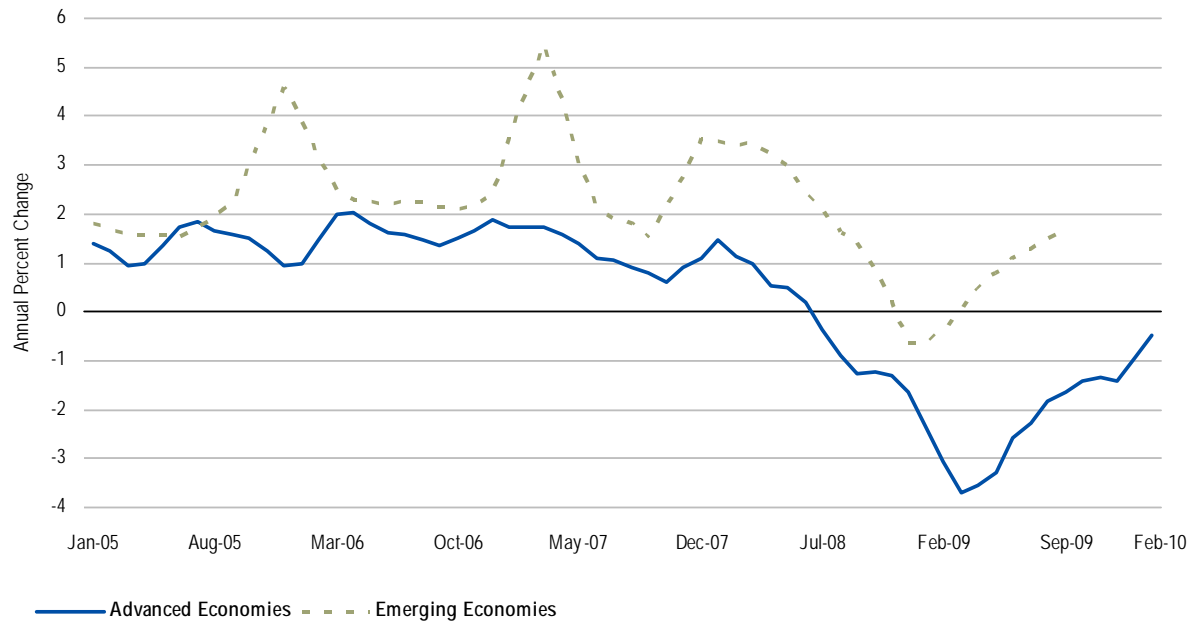
Property Price/ Income, as of 3/31/10



Quarters from the peak of the “bubble.” T=0 in Q1 2010 for China, Q4 2005 for U.S., and Q3 1990 for Japan. Property Prices are National Indices. Income in China is proxied by GDP per Capita.

Emerging Markets Have Seen Net Job Creation Since March 2009

Employment as of 2/28/10

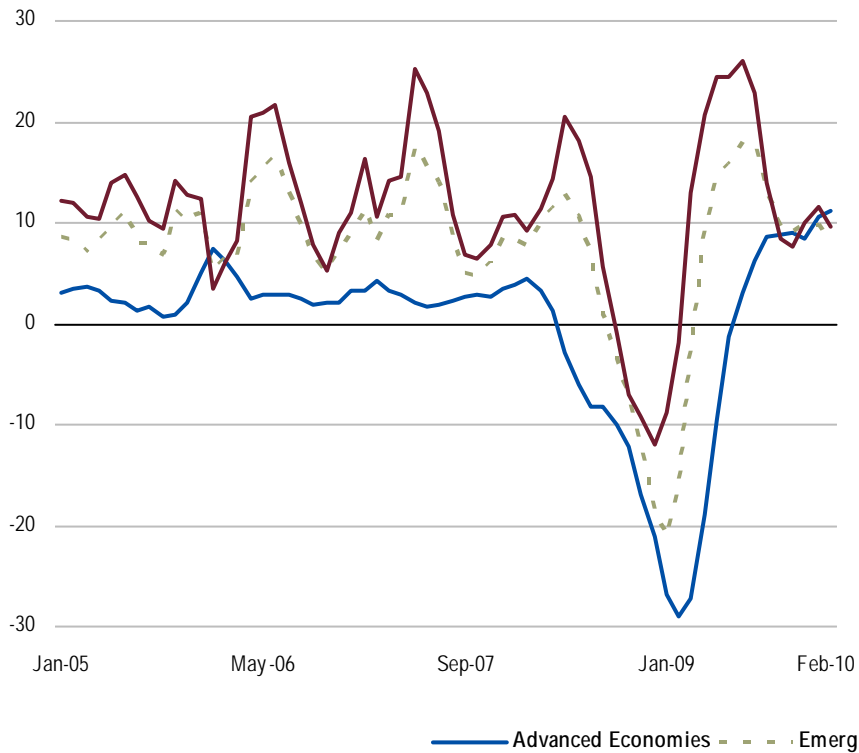


Source: © 2010 International Monetary Fund, World Economic Outlook, April 2010.
Annualized percent change of three-month moving average over the previous three months.
Charts are for illustrative and discussion purposes only.

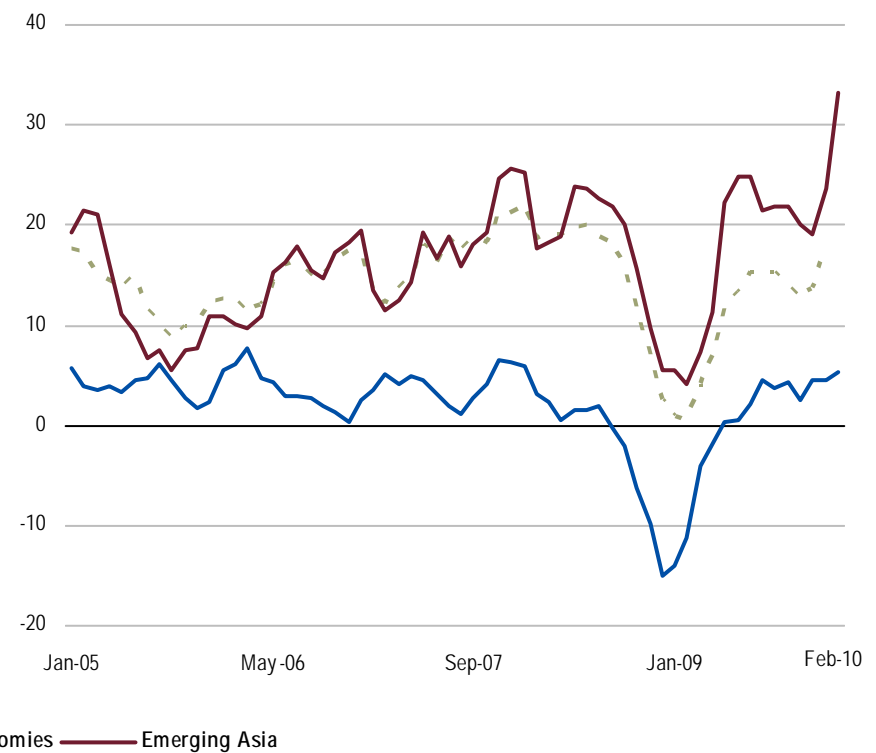
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Recovery Has Generally Been Further Advanced in Emerging Markets, Particularly in Asia

Industrial Production as of 2/28/10



Retail Sales as of 2/28/10



Source: © 2010 International Monetary Fund, World Economic Outlook, April 2010.

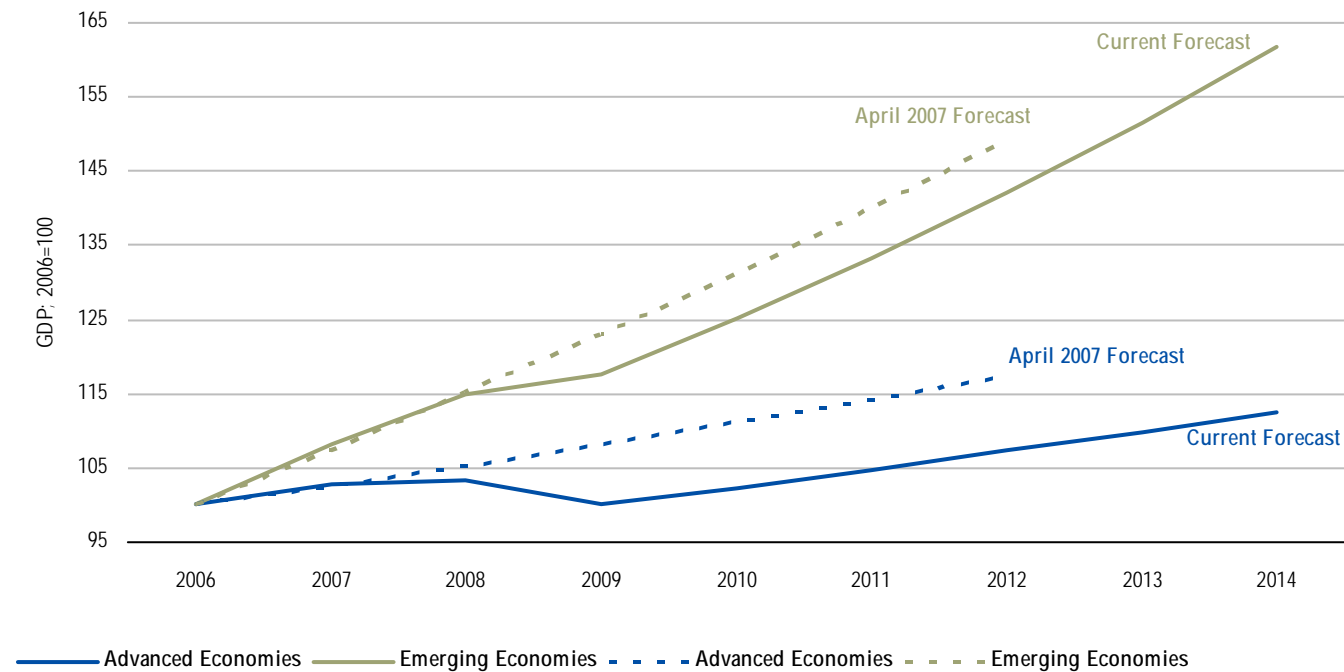
Annualized percent change of three-month moving average over the previous three months.

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Financial Crisis Lowered Growth Everywhere, but Growth in Emerging Markets Should be Less Impacted Long-Term

Growth Differing Between Emerging and Advanced Economies (April 2010)

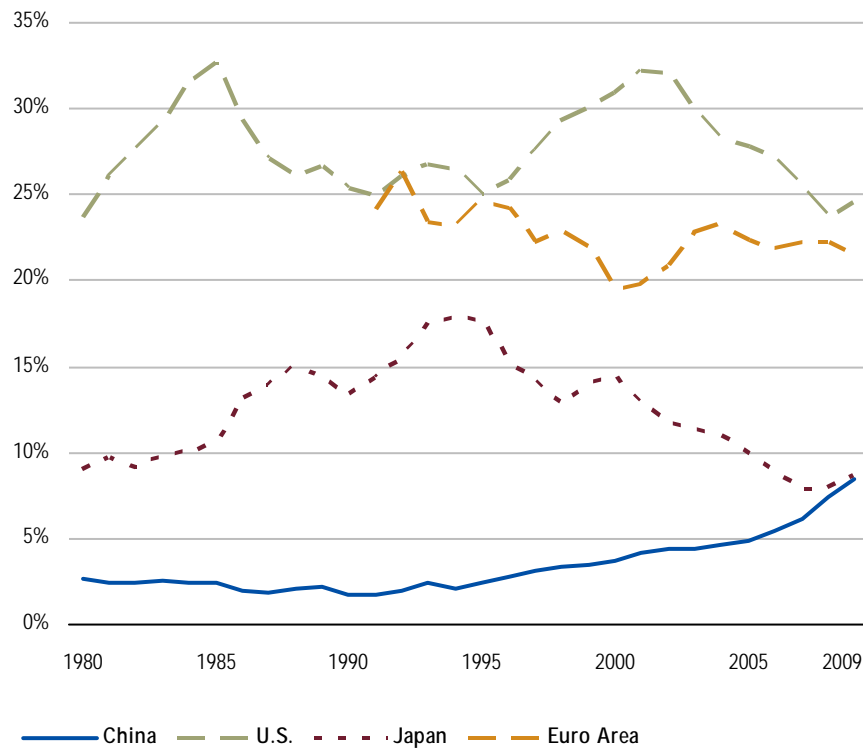


There is no assurance that any projection, estimate or forecast will be realized.
 Source: © 2010 International Monetary Fund, World Economic Outlook, April 2010.
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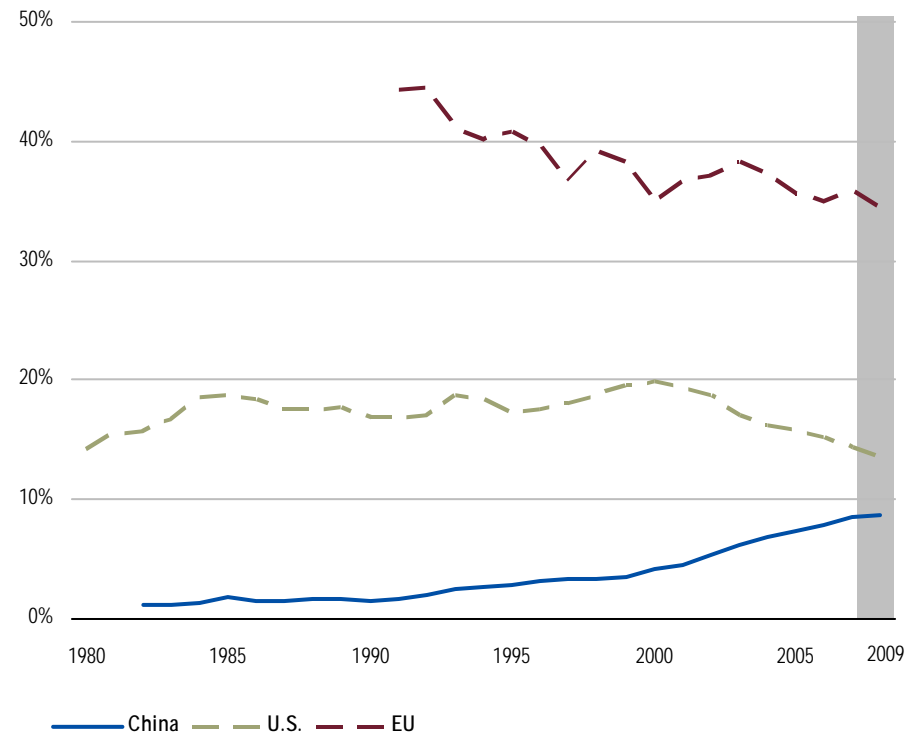
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China's Rising Economic Power

Share of World GDP as of April 2010



Share of World Trade as of October 2009



Shaded area represents IMF staff estimates. As of October 2009.

Source: © 2010 International Monetary Fund, World Economic Outlook, April 2010, OECD.
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Chinese Yuan

We believe the Chinese Yuan has continued to benefit from relatively strong growth and current account surpluses. The strength of the Yuan should, in our view, provide an anchor of economic stability and an impulse for long term appreciation of several non-Japan Asian currencies.

- Policy makers responded to the slowdown with a significant monetary and fiscal stimulus that helped cushion the drag from exports and facilitated a quick recovery. Now that stimulus is being cautiously pared back in order to avoid an overheating economy and asset bubbles.
- Despite exports slowing, China continues to have favorable trade and current account surpluses. Further, it is benefiting from large capital inflows that are lowering the cost of much needed infrastructure.
- While some slowing is likely at the margin, we think growth will remain at very healthy, high single digit levels. Chinese policy makers put a high emphasis on strong growth and have plenty of ammunition left if growth slows more than they expect.
- The move to allow for more flexibility in the Yuan will facilitate the greater internationalization of the currency, assist in the rebalancing of the economy away from an over reliance on exports, and help stem inflation.

**Although likely to underperform most other currencies,
the U.S. Dollar should appreciate against the Japanese
Yen and Euro**

Federal Reserve's Balance Sheet as of 6/30/10



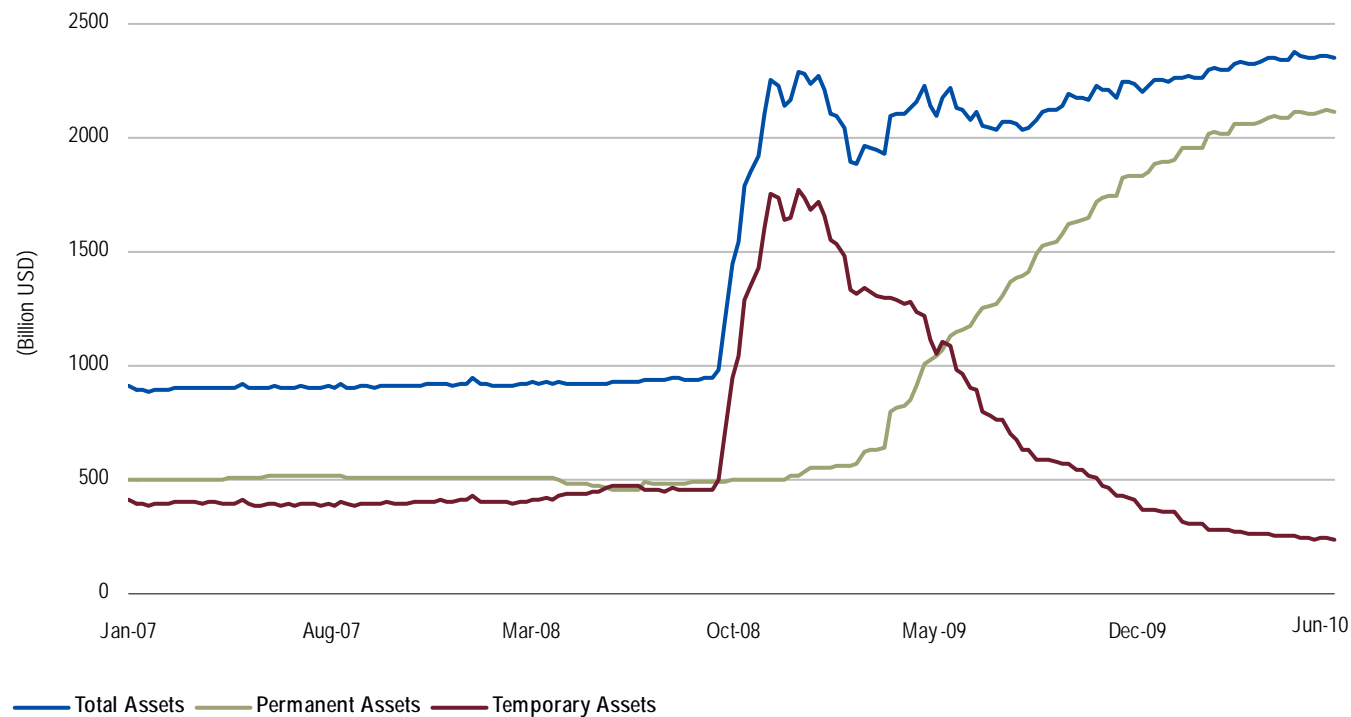
In response to the financial crisis, the Federal Reserve has expanded its balance sheet in an unprecedented manner in order to unfreeze credit markets and lower interest rates. This policy is starting to have the desired impact on credit. However, we believe the dollar is likely to suffer with this expansion of the monetary base. A larger monetary base coupled with an easing of lending conditions may eventually create excessive liquidity in the economy unless the Fed takes preemptive action.

Sources: Federal Reserve, 6/30/10.

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Federal Reserve's Balance Sheet Composition as of 6/30/10



While the pace of expansion has slowed as of November 2008, the breakdown of what the Fed owns has shifted towards longer term assets that will be harder to unwind when the economy recovers and liquidity needs to be withdrawn.

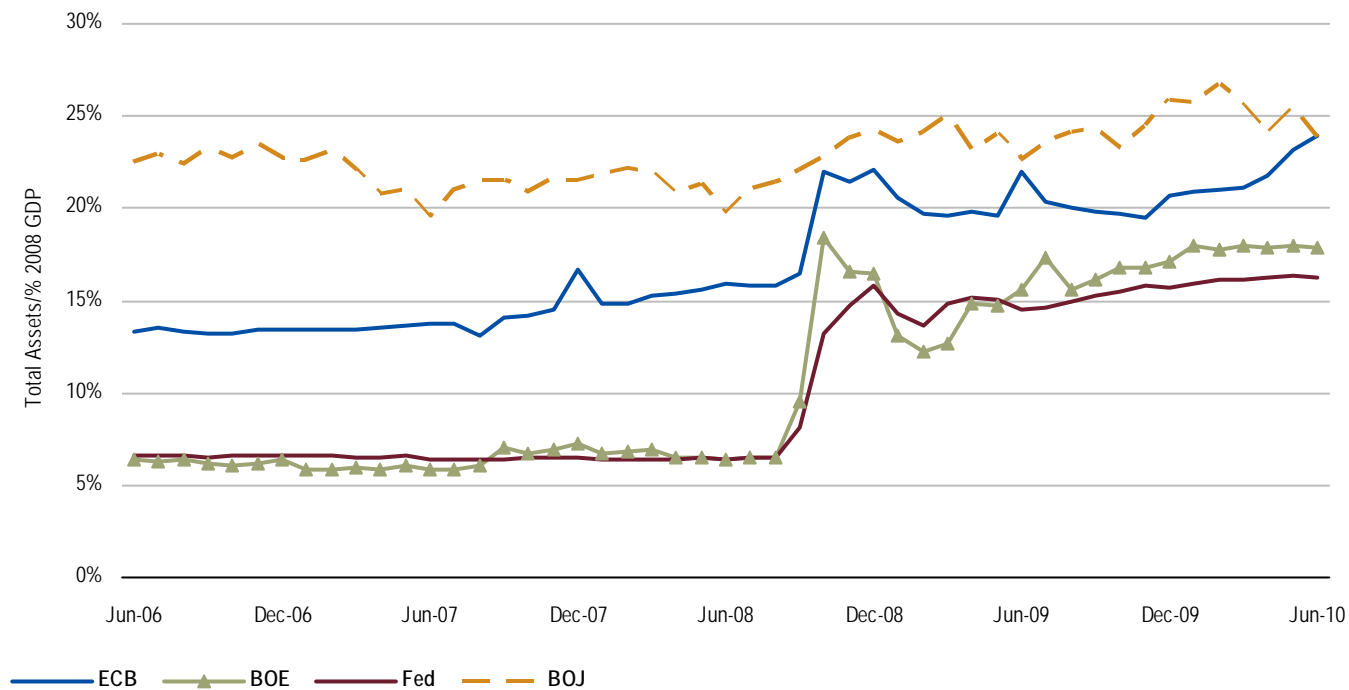
Sources: Federal Reserve, 6/30/10.

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Extraordinary Monetary Policy

Central Banks Balance Sheets as of 6/30/10

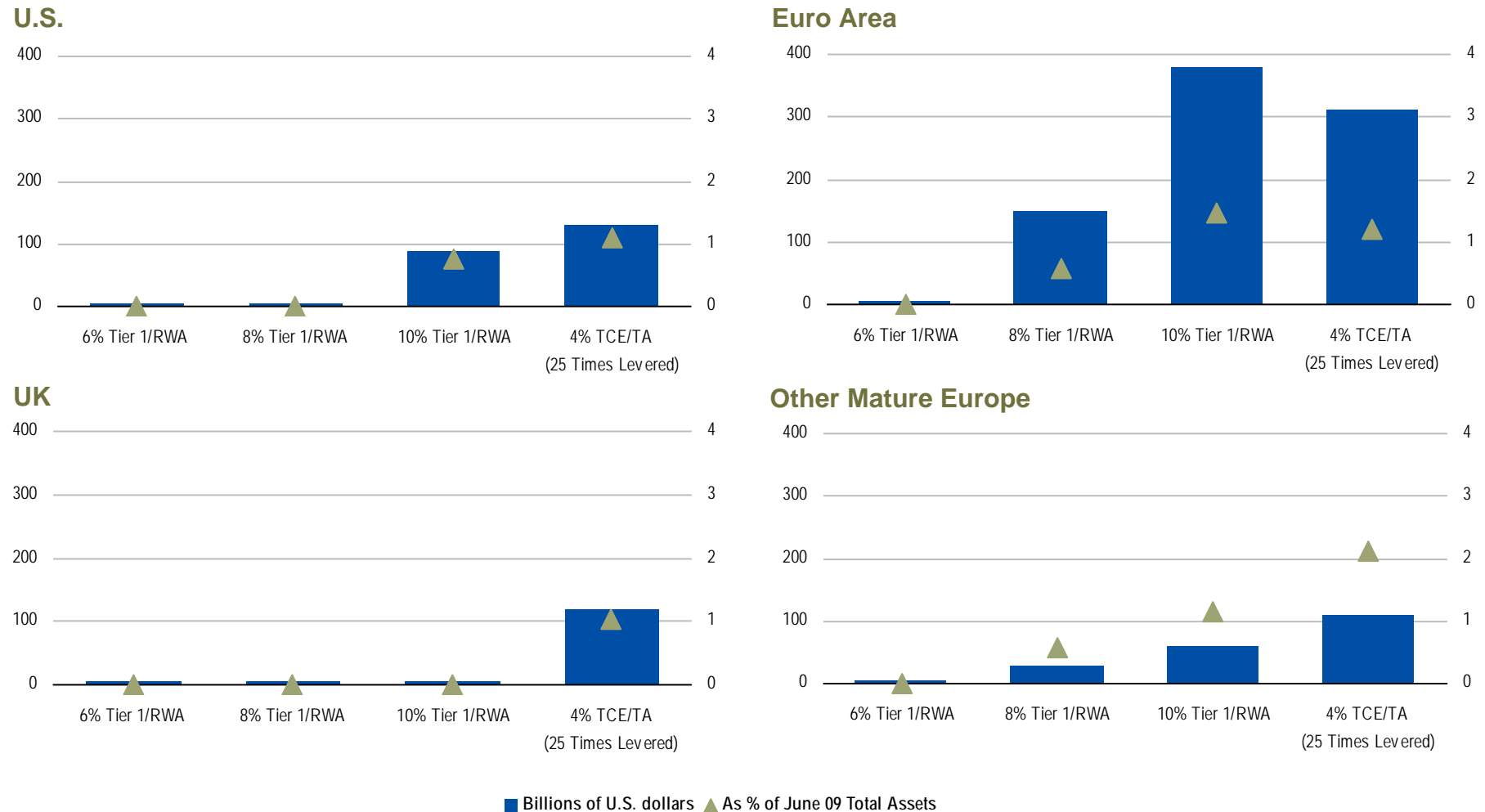


To help mitigate the damage to the economy from the withdrawal of credit, Central Banks injected huge amounts of liquidity into the system through a variety of programs. While these efforts succeeded in their primary goal of unfreezing credit markets, there will likely be long-term costs.

Source: Federal Reserve, Bank of England, European Central Bank, Bank of Japan, 6/30/10.
Charts are for illustrative and discussion purposes only.

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Total Capital Needed to Repair Bank Balance Sheets (October 2009)



There is no assurance that any projection, estimate or forecast will be realized.

Note: All figures are under local accounting conventions and regulatory regimes, making direct comparisons between countries/regions impossible. The overall deleveraging scenario—which is reflected in the figures in these charts—incorporates approximately \$1.1 trillion of sales of assets by banks to government asset management corporations (or other non-banks). The United States, Germany, Ireland, and Spain are among the countries that are in the process of implementing asset purchase and/or asset protection schemes. Tier 1 = Tier 1 capital; RWA = risk-weighted assets; TA = tangible assets; TCE = tangible common equity.

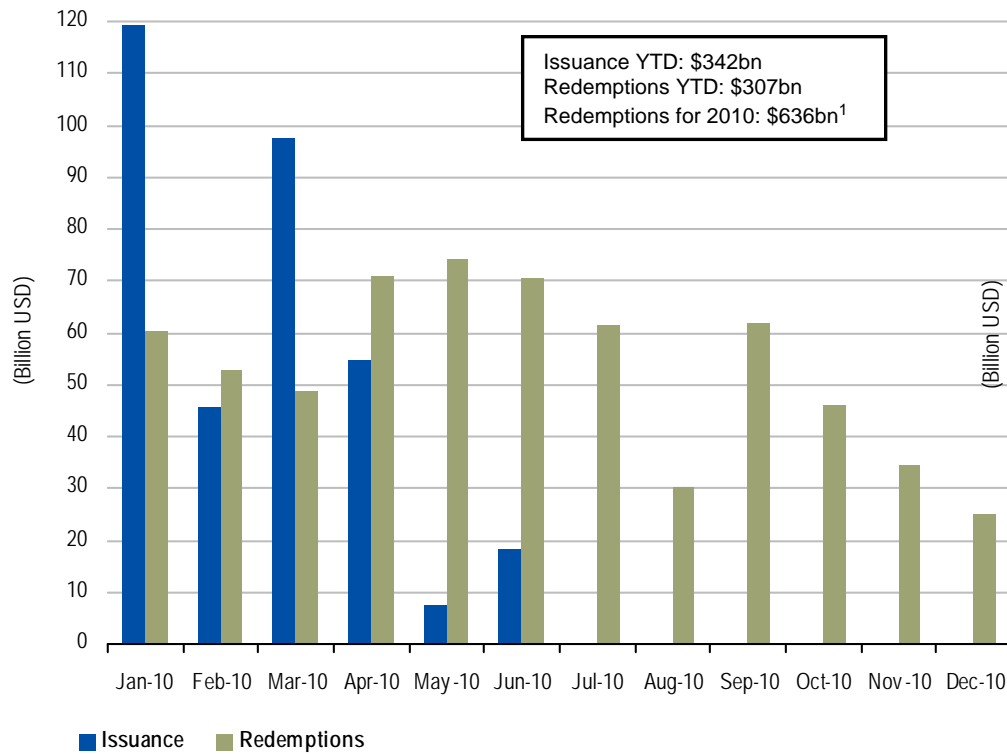
Source: © 2009 International Monetary Fund, Global Financial Stability Report, October 2009.

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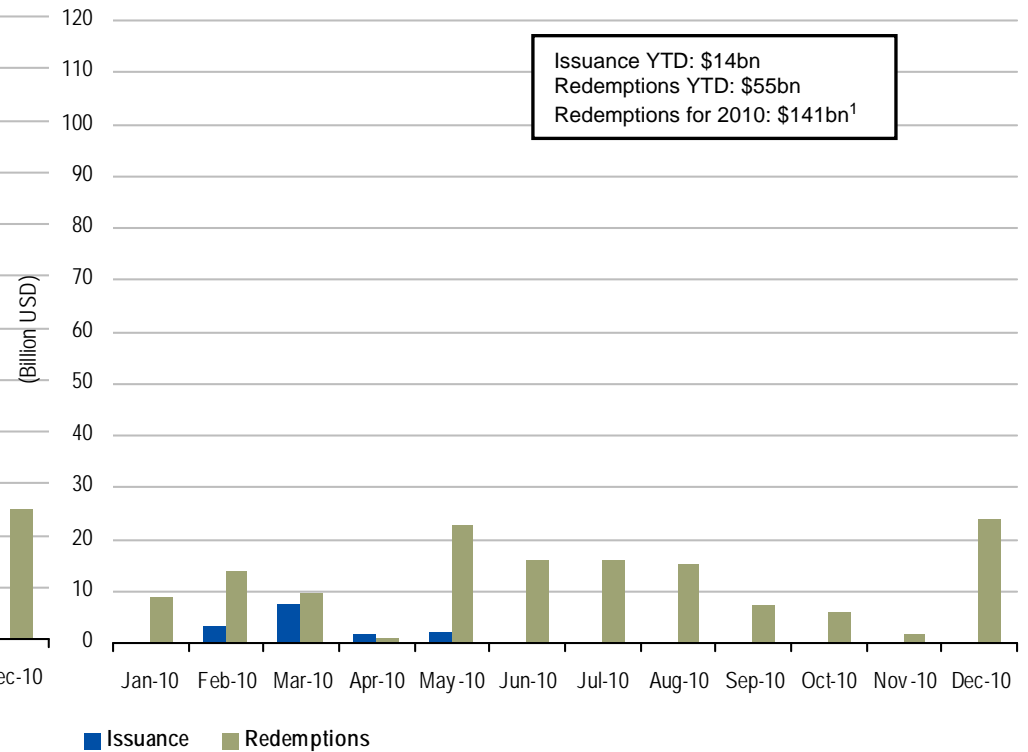
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Relative Funding Requirements of European and U.S. Bank Debt

European Banks, as of 6/30/10



U.S. Banks, as of 5/31/10



Note: Data includes issuance and redemptions for European and U.S. bank debt; YTD redemptions and issuance are through June for European banks and through May for U.S. banks.

Source: Dealogic, J.P. Morgan, 6/30/10.

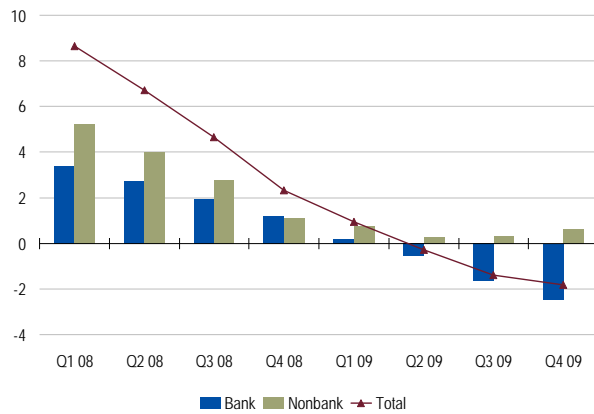
1. Forecasts based on maturity dates of the debt issued. There is no guarantee that the forecasts will be met.

Charts are for illustrative and discussion purposes only.

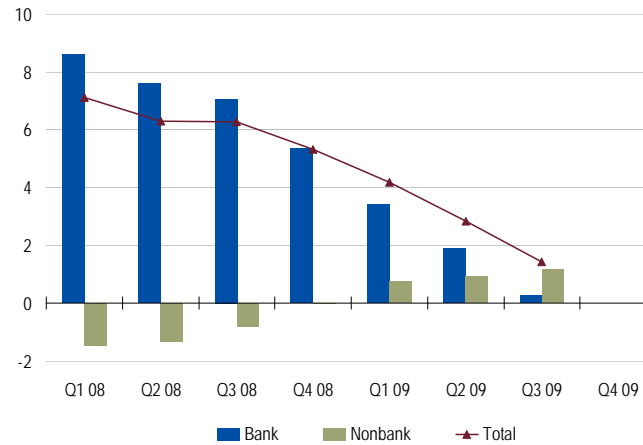
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Contributions to Nonfinancial Private Sector Credit Growth, Breakdown Between Bank and Non Bank Sources, in Percent (Year-on-Year)

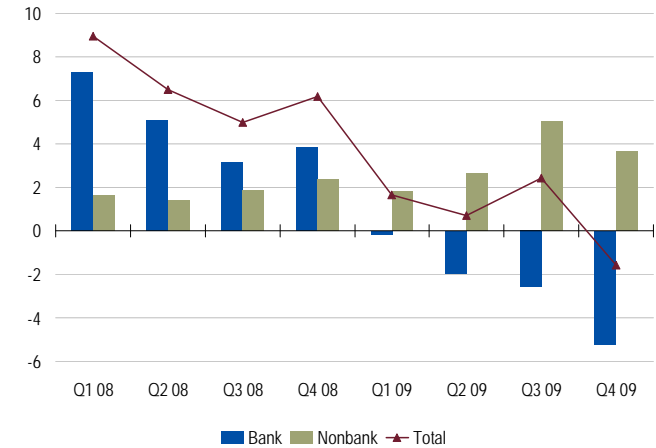
U.S. as of 12/31/09



E.U. as of 9/30/09



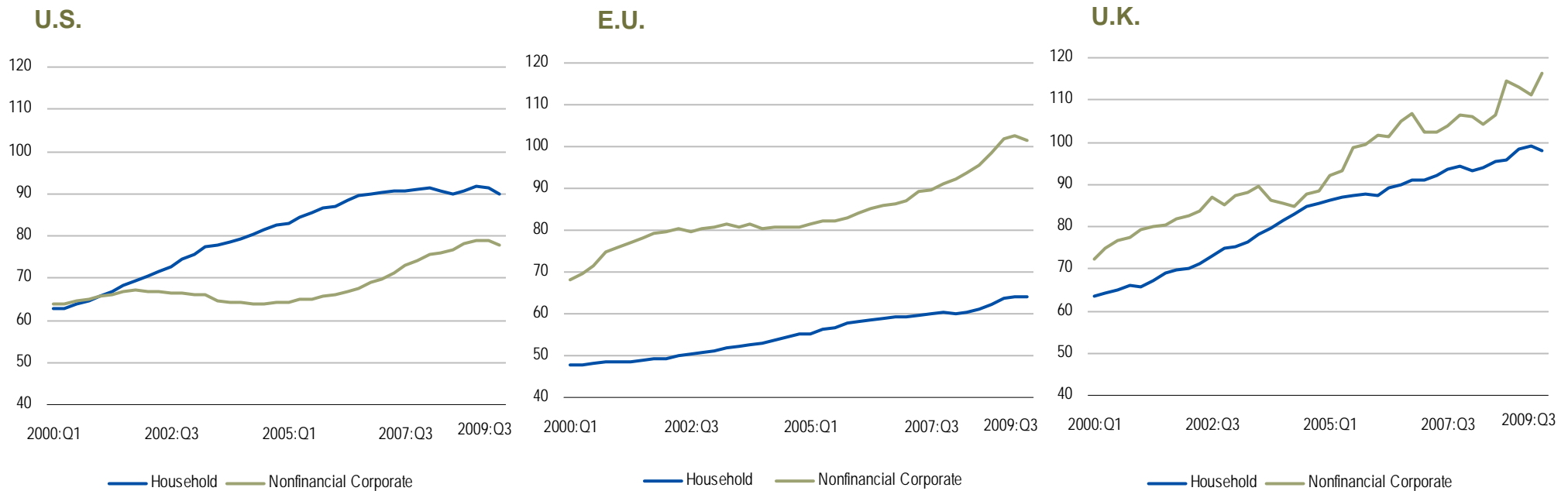
U.K. as of 12/31/09



Banks have played a much bigger role in credit extension in the Euro area than in the U.S. or U.K.

Credit to GDP, in Percent

As of September 30, 2009

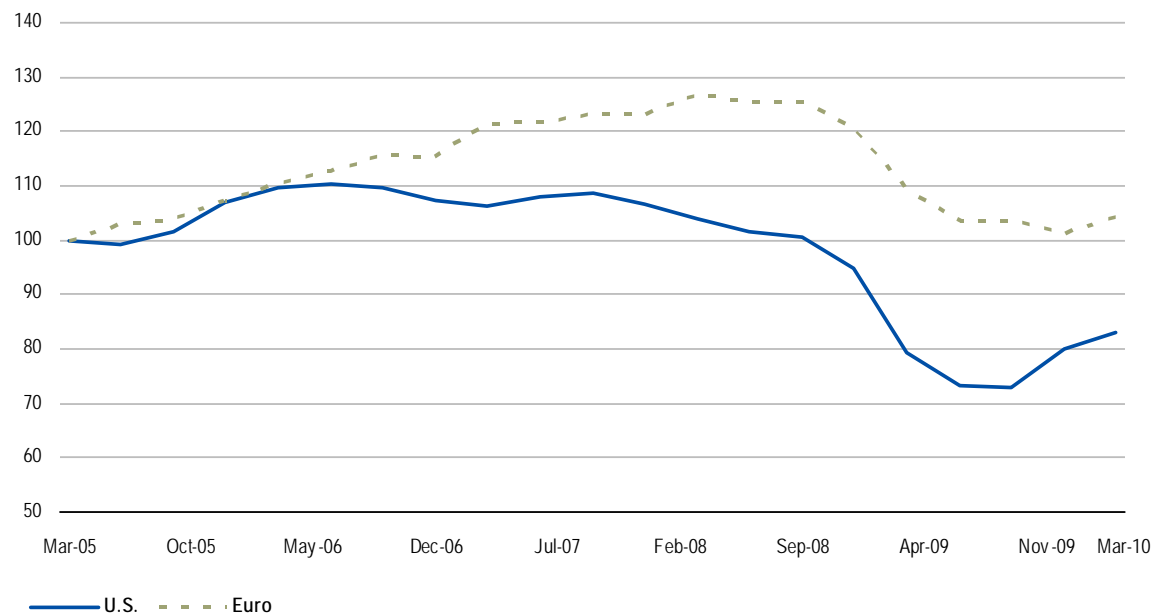


While leverage is a problem across all three economies, the leverage sector varied between economies. And U.S. companies are in a relatively better position to access credit than the E.U. and the U.K.

More Rapid Cost Cutting in the U.S. than E.U.

As of March 31, 2010

Gross Fixed Capital Formation, real level (Q1 2005 =100)

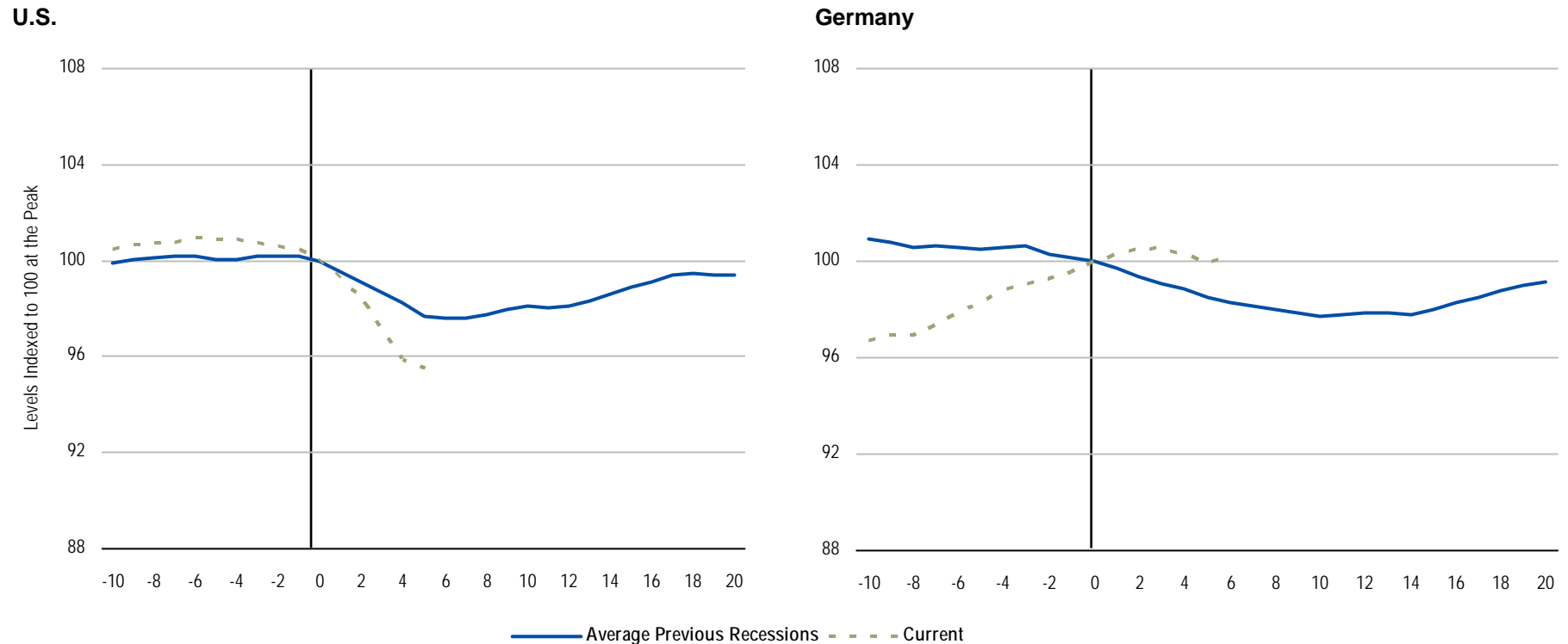


Source: Bureau of Economic Analysis, Eurostat, FT Investments, 3/31/10.
Charts are for illustrative and discussion purposes only.

This is a supplemental slide to the Global Bond Plus/Global Multisector Plus strategies combo presentation, and may only be used when accompanied by the slides from that presentation.

Labor Market Rigidities May Pose a Challenge to a European Recovery

Employment Rate as of 9/30/09



Quarters from peak in output. X=0 at Q2 2008 in U.S. and X=0 at Q1 2008 in Germany (NOTE: Each X = 1 Quarter)

While Euro area labor rigidities have prevented the extent of job losses seen in the U.S., the weakness in Euro area labor markets has shown up through reduced hours and less productive workers.

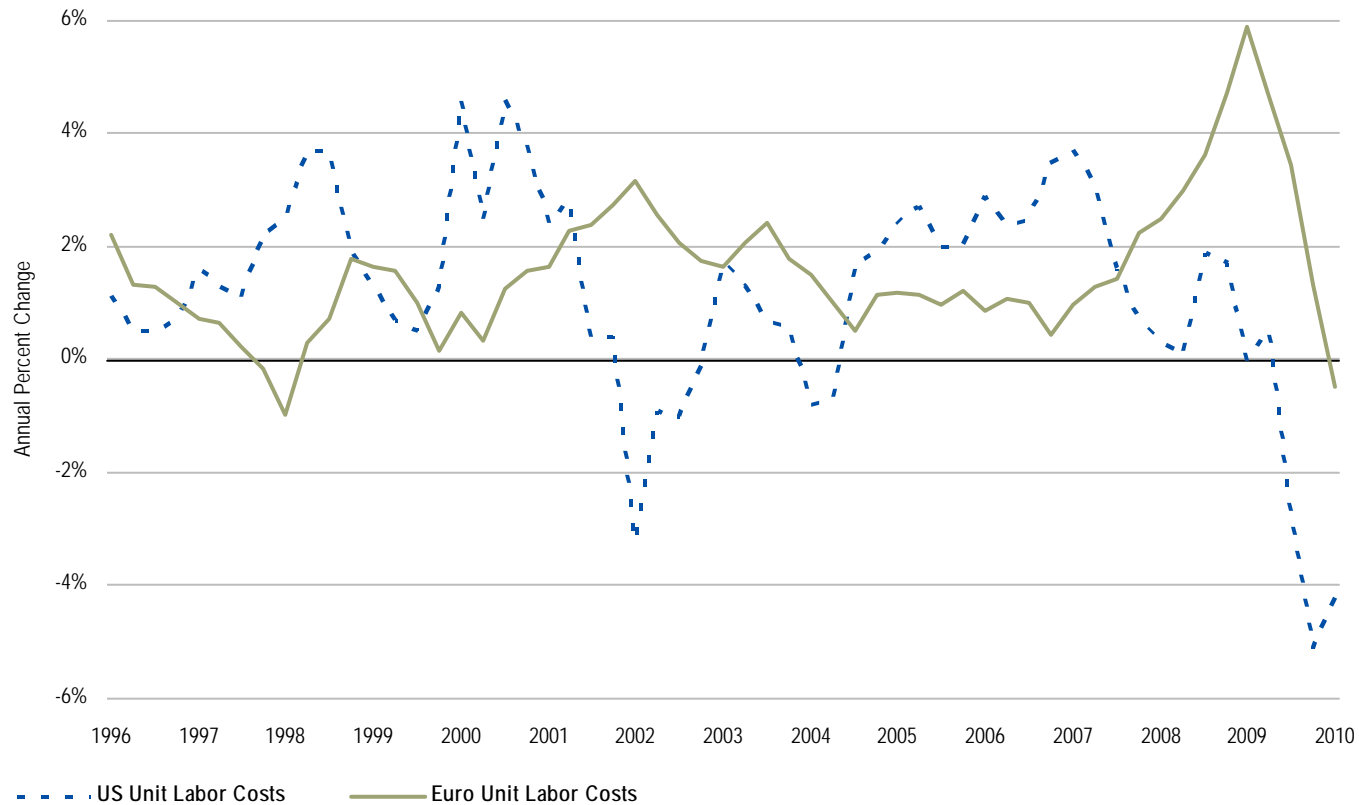
Source: © 2010 International Monetary Fund, World Economic Outlook, April 2010.

Ratio of Employed Population to Labor Force.

Charts are for illustrative and discussion purposes only.

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Relative Unit Labor Costs as of 3/31/10



While a significant number of job losses has led to a decline in unit labor costs in the U.S., the Eurozone has generally not experienced a similar decline in unit labor costs during the same period, benefiting American labor's relative productivity.

Source: Bureau of Labor Statistics, European Central Bank, Data as of Q1 2010.

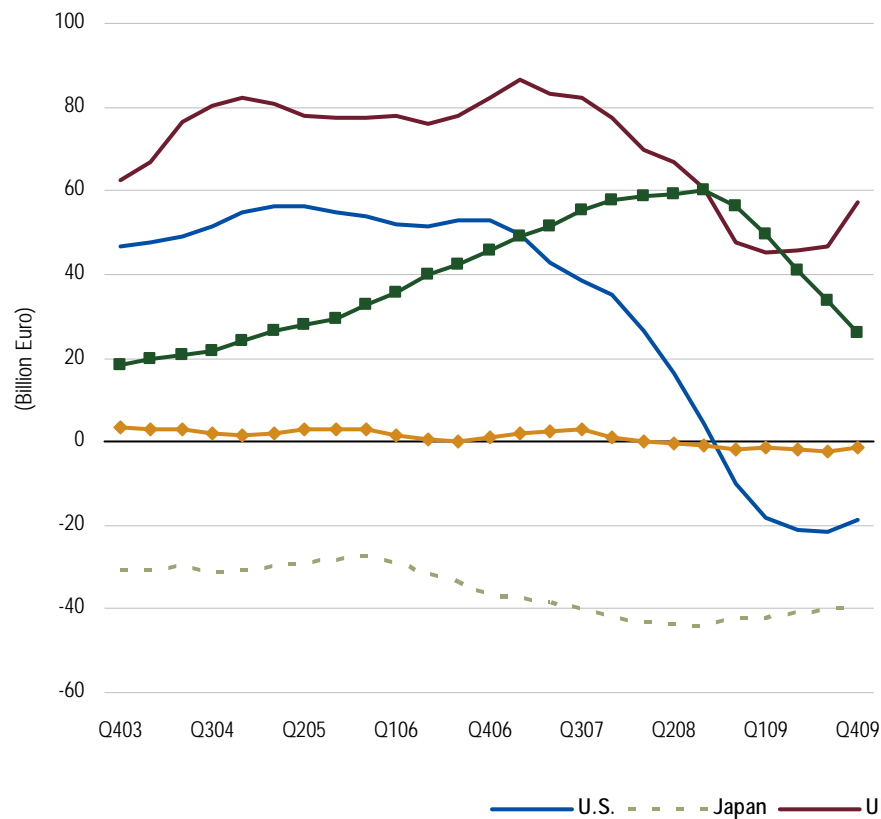
Unit labor costs are equal to total labor costs (wages and benefits) divided by total output.

Charts are for illustrative and discussion purposes only.

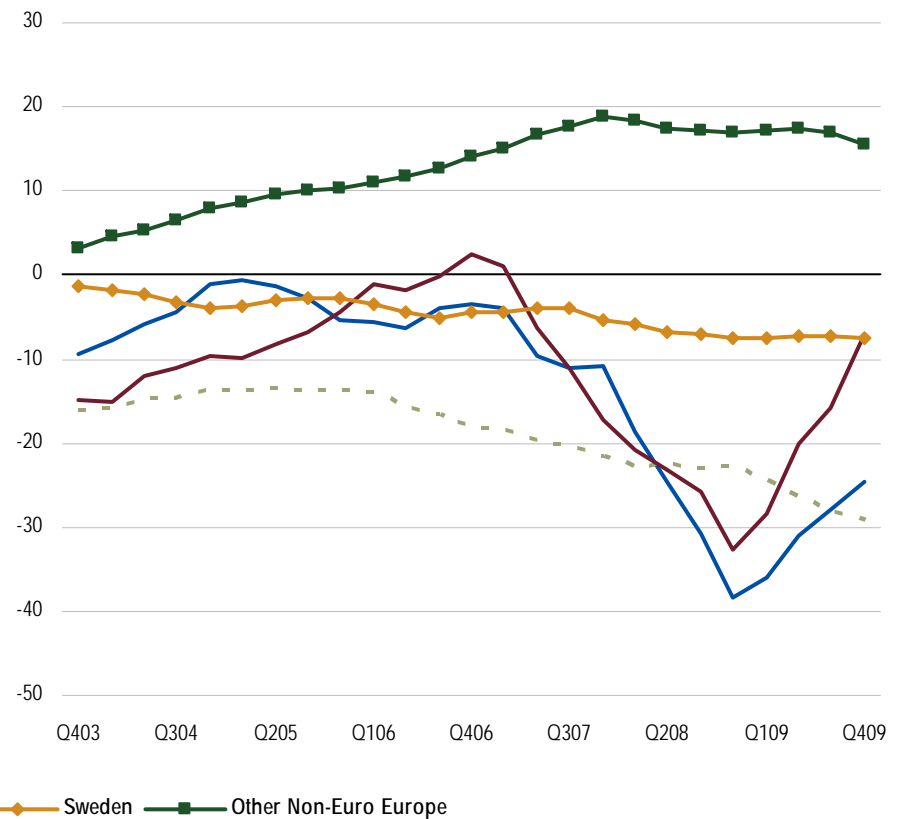
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Bilateral Current Account Between U.S. and Eurozone Has Been Rebalancing as of 12/31/09

EU Current Account Balances as of 12/31/09



EU Income Balances as of 12/31/09



A stronger Euro and weak domestic demand in the U.S. has been helping balance the bilateral flows.

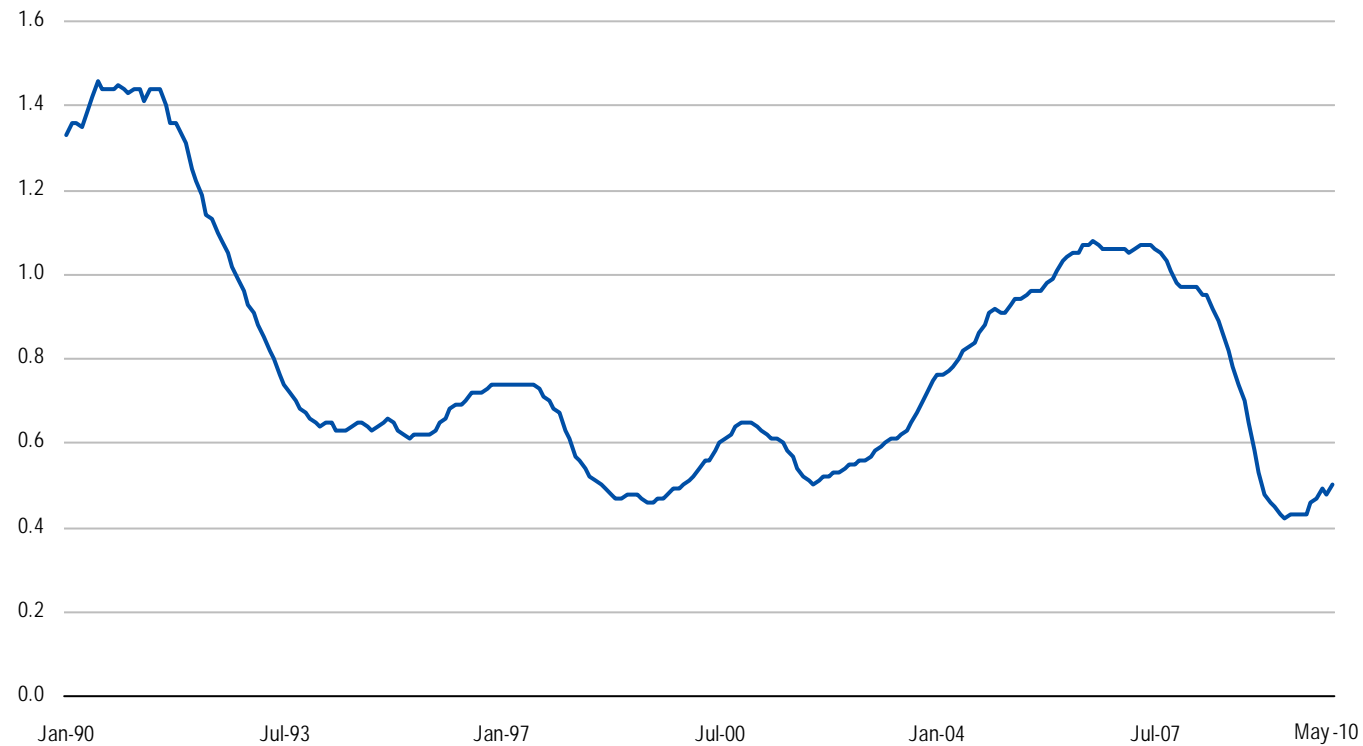
Source: European Central Bank, December 2009.

Charts are for illustrative and discussion purposes only.

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Labor Markets Have Posed a Challenge in Japan as well

Japan Jobs to Applicant Ratio as of 5/31/10

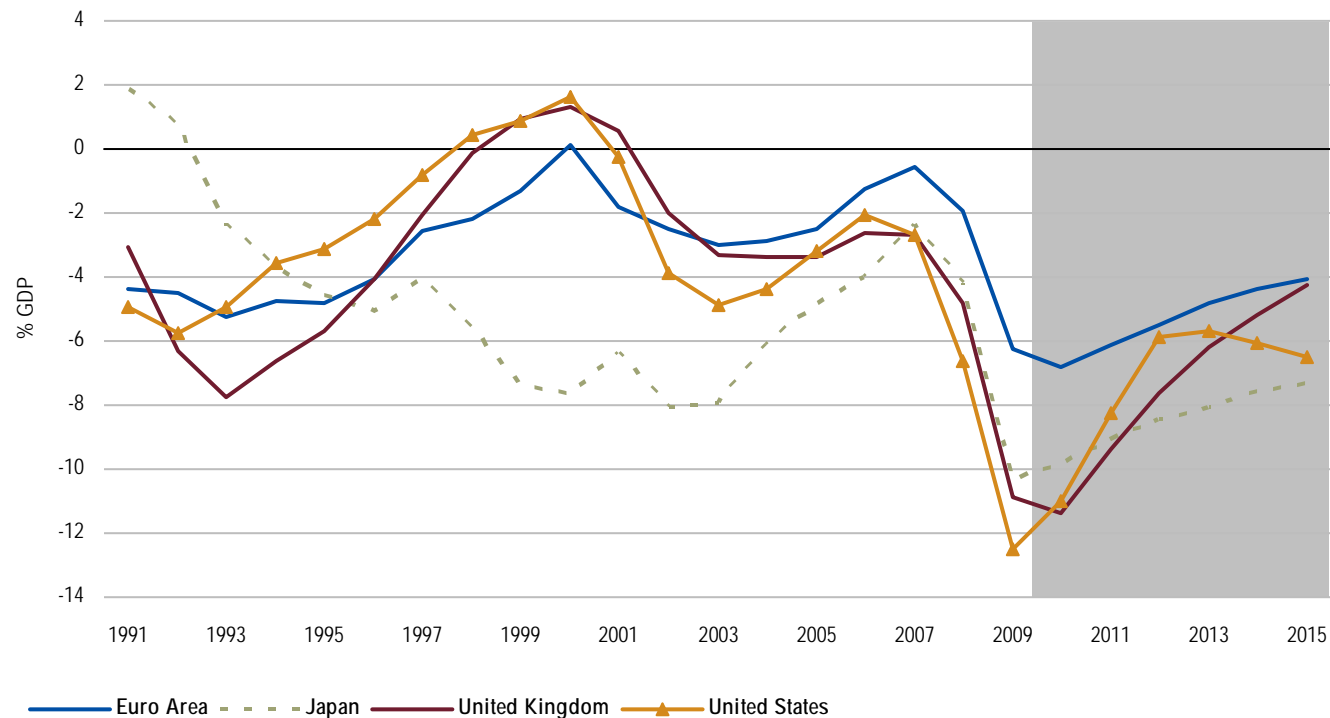


Source: Ministry of Health, Labor, and Welfare – Japan, May 2010.

Charts are for illustrative and discussion purposes only.

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Very Large Fiscal Deficits in the Developed World as of April 2010



Shaded area represents IMF staff estimates. As of April 2010.

General government balances are projected to be large negatives for years to come. This will likely threaten both yields and currencies as the funding challenges persist and debt burdens increase.

There is no assurance that any projection, estimate or forecast will be realized.

Source: © 2010 International Monetary Fund, World Economic Outlook, April 2010.

Charts are for illustrative and discussion purposes only.

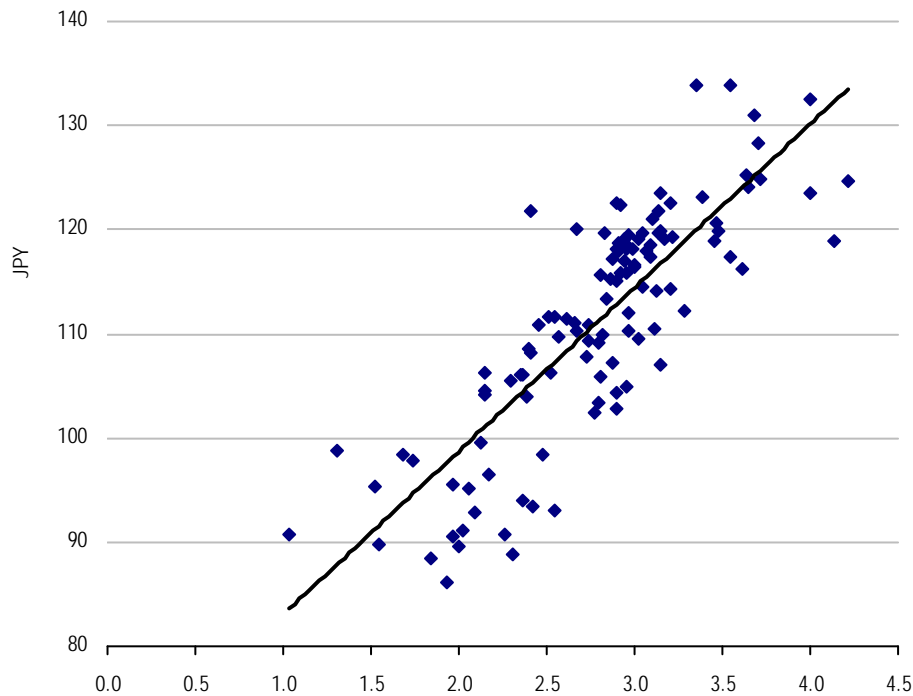
This is a supplemental slide to the Global Bond Plus/Global Multisector Plus strategies combo presentation, and may only be used when accompanied by the slides from that presentation.

Japanese Yen Likely to Weaken if U.S. Yields Rise

Historically, there has been a strong correlation between the relative strength of the yen against the U.S. dollar and the difference between their interest rates. In part due to the large international portfolio flows of Japanese investors, a relative rise in U.S. yields has historically led the dollar to appreciate against the yen.

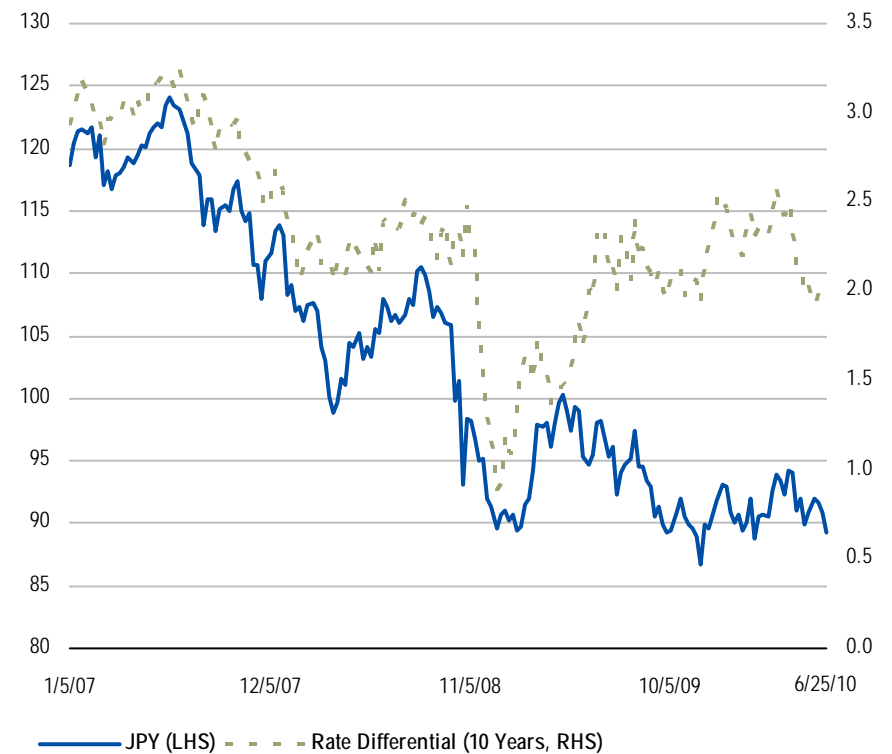
The interest rate differential as of the most recent time period would suggest to us a weaker yen, and we expect that differential to grow as the large negative output gap in Japan is likely to persist for several years.

Interest Rate Differential and exchange rate, U.S. and Japan as of 6/30/10



Difference between U.S. and Japanese 10 yr yields
Monthly from January 2001 through June 2010

Interest Rate Differential and exchange rate, U.S. and Japan as of 6/30/10



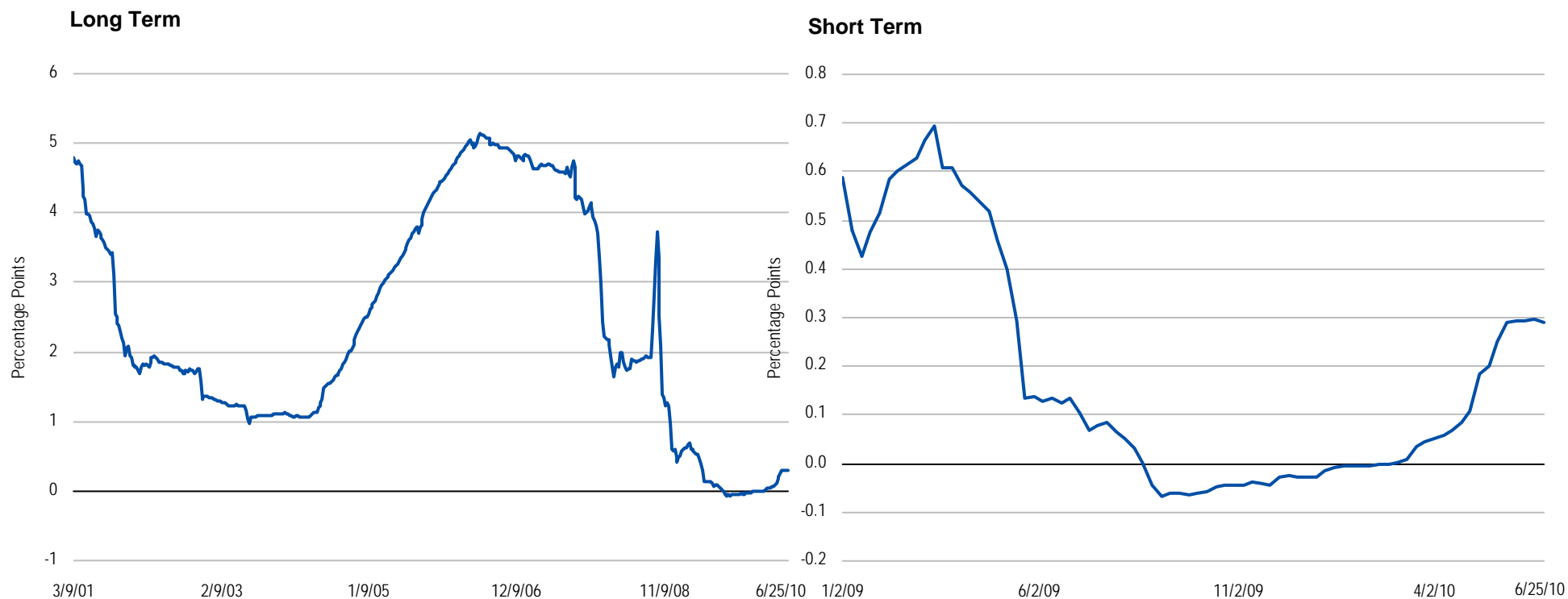
Source: IDC/Exshare, Bloomberg, as of 6/30/10.

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Japanese Yen Likely to Weaken if U.S. Yields Rise

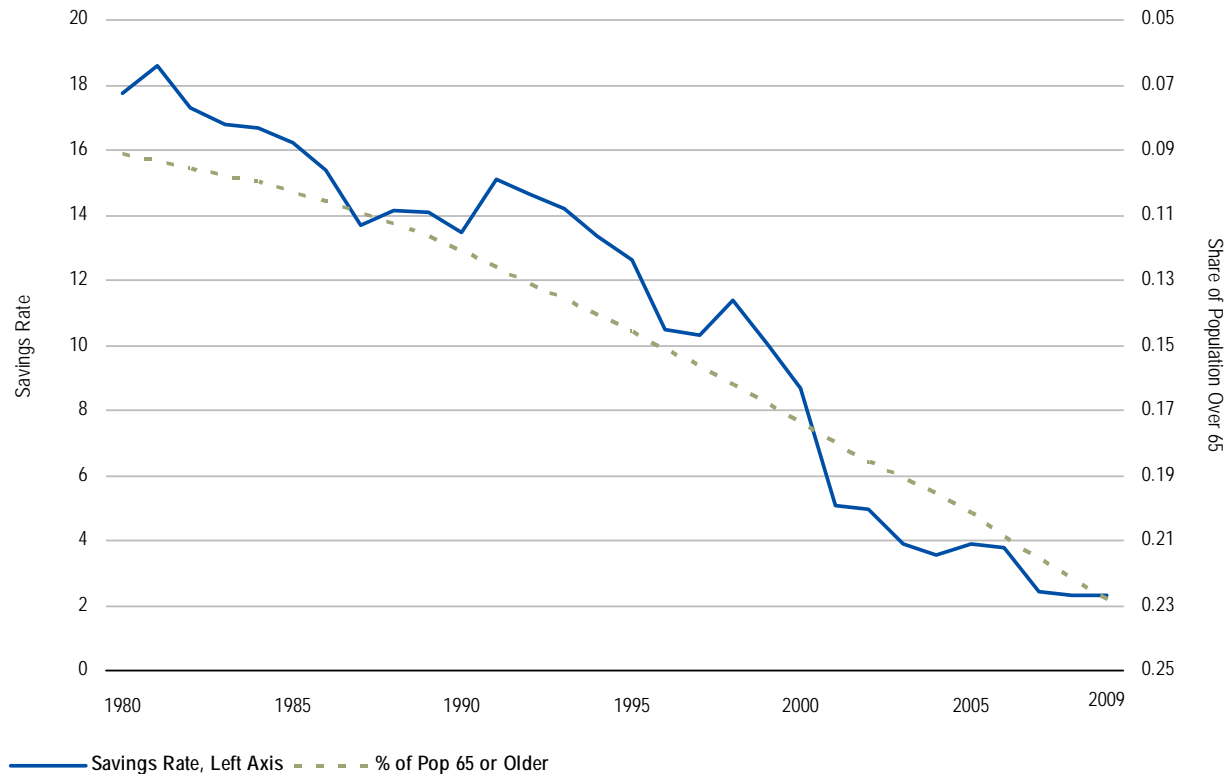
Differential between 3 month LIBOR in USD and JPY, as of 6/25/10



Source: British Bankers Association, as of 6/25/10.
Charts are for illustrative and discussion purposes only.

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Japan's Demographic Shift Underpins Declining Savings as of 12/31/09



Based on historical trends, aging of Japan's population should cause less savings and more consumption. This will likely put pressure on Japan's current account, in addition to Japan's already challenging fiscal position, and may weaken the yen.

Source: OECD, © 2010 International Monetary Fund, Ministry of Internal Affairs & Communication, as of 12/31/09.
Charts are for illustrative and discussion purposes only.

This is a supplemental slide to the Global Bond Plus/Global Multisector Plus strategies combo presentation, and may only be used when accompanied by the slides from that presentation.

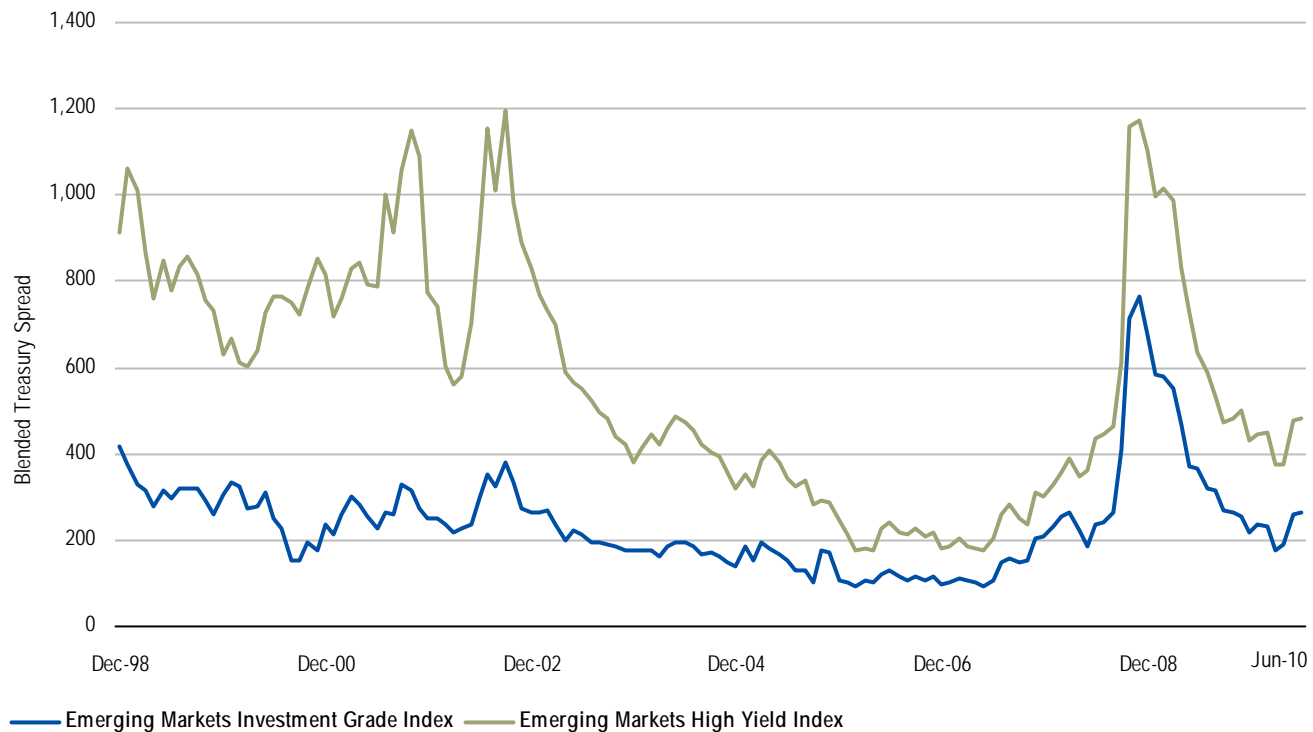
Credit Opportunities

Forced selling has created what we consider to be attractive opportunities where markets are pricing in too high a probability of default.

Long-Term Sovereign Opportunities

While spreads have broadly compressed from the distressed levels seen at the height of the crisis, we believe that select opportunities persist.

Emerging Market USD Government Bonds as of 6/30/10



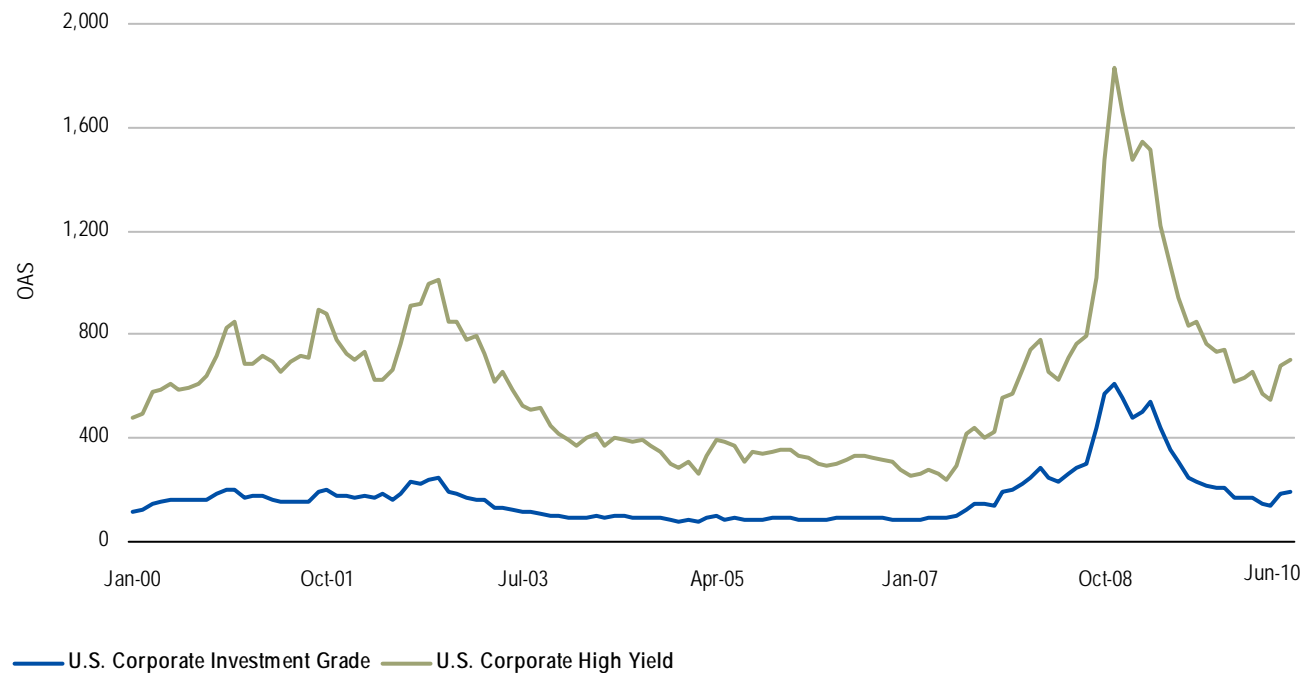
Source: Barclays Capital, as of June 30, 2010. Sovereign valuations are represented by blended Treasury spread. Charts are for illustrative and discussion purposes only.

This is a supplemental slide to the Global Bond Plus/Global Multisector Plus strategies combo presentation, and may only be used when accompanied by the slides from that presentation.

Long-Term Corporate Opportunities

While spreads have generally compressed since November 28, 2008, we are still seeing what we consider to be long-term opportunities.

U.S. Corporate Bonds as of 6/30/10



Source: Barclays Capital, as of June 30, 2010. Spreads are represented by option-adjusted spread (OAS).
Charts are for illustrative and discussion purposes only.

This is a supplemental slide to the Global Bond Plus/Global Multisector Plus strategies combo presentation, and may only be used when accompanied by the slides from that presentation.