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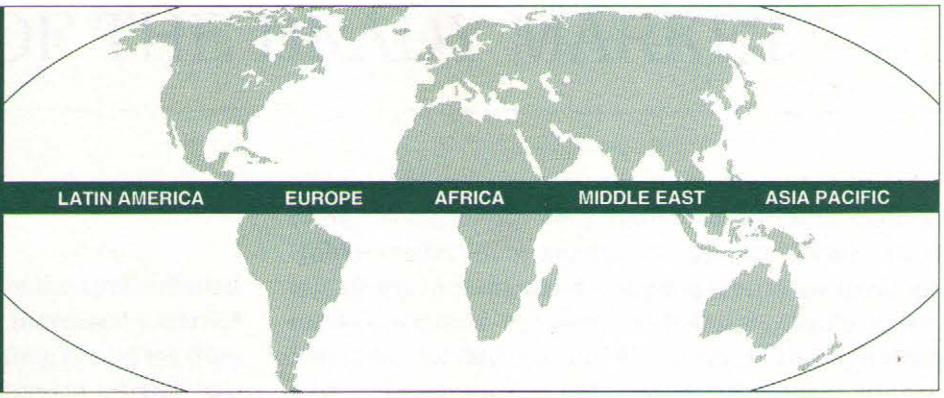
Emerging Markets



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Brady Bond MARKET HANDBOOK

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Inside

The Brady bond market is the product of former U.S. Treasury Secretary Nicholas Brady's solution to the developing country debt crisis of the 1980s. Under the Brady Plan, developing countries issue bonds in exchange for rescheduled commercial bank debt based on a menu of options. The Brady Plan attempts to motivate developing countries to adopt market-oriented economic policies through debt and debt service relief and significantly longer maturities. In return, commercial banks exchange loans outstanding to developing countries for bonds that are more liquid and typically defeased by U.S. Treasury zero coupon bonds. Mexico was the first country to complete a Brady Plan restructuring in March 1990, and since then a total of 13 countries have completed Brady exchanges.

Over the past five years, the Brady bond market has become the largest and most liquid of the emerging markets. Currently, bonds outstanding total US$154.0 billion, the majority of which is Latin American bonds denominated in U.S. dollars. Both investment and commercial banks are active market makers in these securities, and the investor base now encompasses a broad spectrum of institutional accounts including mutual funds, money managers, insurance companies, and pension funds. Portfolio managers are increasingly looking to Brady bonds as the core of the emerging markets for yield enhancement and portfolio diversification. Over the period from 1/1/93 to 9/30/95, the Brady component of the Lehman Brothers Emerging Americas Bond (EAB) Index returned 38.84%, compared to 28.3% for the BBB Corporate Index, and 33.98% for the High Yield Index.

This handbook provides an overview of the Brady bond market and serves as a tool for investing in Brady bonds.